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M A TALK WITH
LOU GERSTNER

TAKEOVERS DOES CASH MAKE
YOU VULNERABLE?

STRATEGIES ▶SIEMENS
▶UNITED TECHNOLOGIES

BusinessWeek

1, 1995 A McGRAW-HILL PUBLICATION $2.95

SALOMON

an CEO Deryck Maughan stop the bleeding?
Did Warren Buffett blow it?

PAGE 144

Investor Buffett, left,
and Salomon Brothers
CEO Maughan

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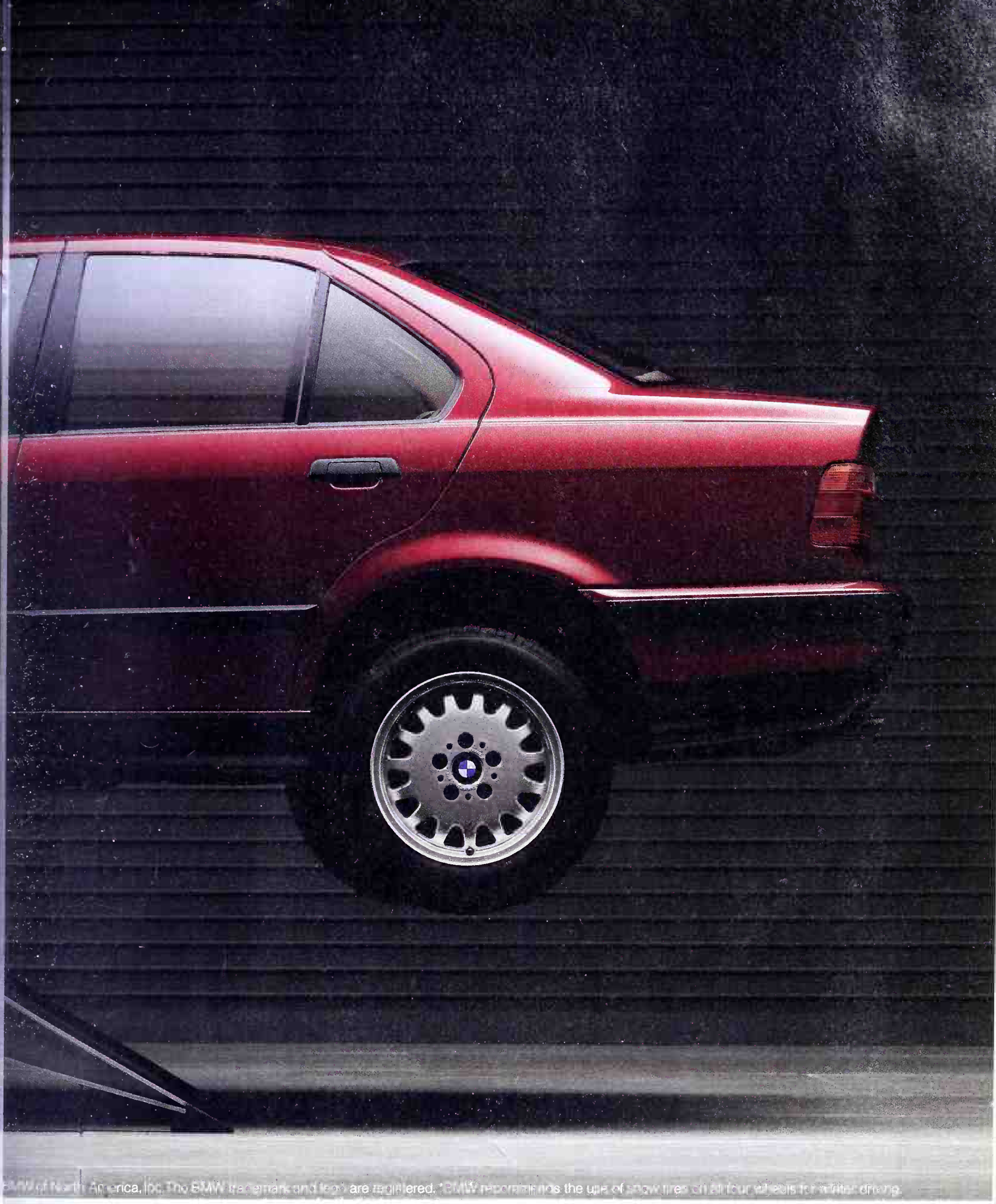

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BusinessWeek
MAY 1, 1995

TURMOIL AT SALOM
Sure, market conditio
have pummeled plenty
of investment banks.
But Solly's thorniest
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A tough CEO gives
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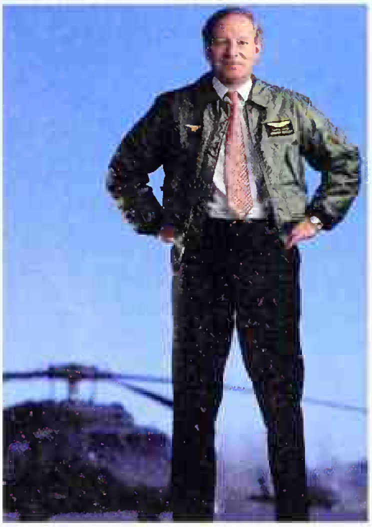

GERSTNER SPEAKS

"We won't stop this
journey until we
find our way back"
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FEEDING FRENZY?

Cash flow is strong, banks
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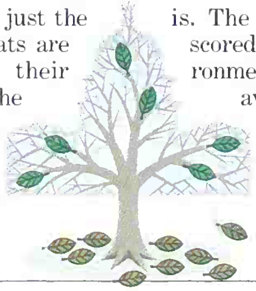
Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW “The Constitution gives me relevance, the power of our ideas gives me relevance. The President is rel vant here.” *—President Bill Clinton, on why his views are imp tant despite the assertive GOP Congress*

SLUGFESTS

CONGRESS: BLACK DAYS FOR THE GREENS



ENVIRONMENTALISTS HAVE plenty to raise a stink about on Apr. 22, the 25th anniversary of the first Earth Day. The new Republican-led Congress has hurt their cause mightily. Nor is it just the GOP: Key Democrats are working against their agenda, too. The greens recently lost votes on softening environmental safeguards and compensating property owners claiming losses from federal rules.

A study of the first 100 days by the League of Conservation Voters shows just how staunch the opposition is. The 73 GOP freshmen scored a paltry pro-environment rating of 3% on average, vs. 10% for veteran Republicans. Worse, 23 conservative Democrats backed Republicans on the environment. Led by Representative Billy Tauzin (D-La.), they scored 13%, vs. 77% for other Dems.

It won’t get any better in the Senate, where important votes are coming up. League of Conservation Voters President Jim Maddy expects new GOP senators to team up with the likes of Senator Howell Heflin (D-Ala.), offsetting pro-environment moderate Republicans. The enviros hope to chop down a clump of their foes in the 1996 election, including Representative Rick White (R-Wash.). However, unless they can find a message that sells in the Newtoid ’90s, prospects for the greens don’t look too rosy at all. *Mary Beth Regan*

I-WAY PATROL

DESPERATELY SEEKING SPECTRUM

THE SATELLITE VENTURE backed by moguls Bill Gates and Craig McCaw is wobbling in orbit. They are lead investors in Teledesic, which wants to provide wireless phone service to remote parts of the globe. The hitch: Wireless cable-TV companies are occupying the section of the radio spectrum that the Gates-McCaw outfit covets, and they won’t make way.

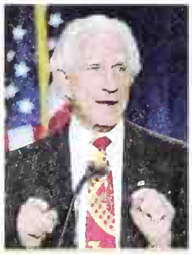
The wireless cable folks, led by CellularVision of New York, offer to share the spectrum with Teledesic and other satellite providers now gearing up. CellularVision wants to blanket the country with wireless cable TV and local phone service. Teledesic and its allies say spectrum sharing would create too much interference. The wireless outfits disagree. Each side argues its service is the more important to the U.S. economy. The entire matter will be refereed by the FCC.

Gates and McCaw each invested $5 million last year in Teledesic—adding undisclosed sums since. Gates is a passive investor; McCaw is more active. McCaw and Teledesic President Russell Daggett have met twice with FCC Chairman Reed Hundt, seeking liftoff. *Mark Lewyn*

VEXED: *Investors Gates and McCaw*

APPOINTED ROUNDS

THE CHIEF MAILMAN KEEPS HIS ROUTE



RUNYON: *Curbed*

THE TRIP TO THE dead-letter bin is off for Postmaster General Marvin Runyon. Last year, as the Postal Service suffered a $914 million deficit and many delivery screwups, there was talk its board of governors would fire Runyon. When the board meets on May 1, however, most of the members will be behind him.

How did Runyon survive? Partly by fixing a lot of delivery snags. First-class and overnight mail, while hardly perfect, are more prompt, a Price Waterhouse study says. Also, January’s rate hike will produce an estimated $210 million surplus this year.

Another factor: The board has tightened its grip on Runyon. Some governors felt he didn’t consult with them enough before going public. Example: In January, he made a speech calling for changing postal laws. So Chairman Sam Winters told him to clear such speeches with the board. Some also felt Runyon’s aides kept bad news from them. In February, the board voted to require its O.K. on senior managers’ salaries. Runyon’s spokesman calls the procedural changes minor and says Runyon has kept the board fully informed. Presumably, not by mail. *Mark Lewyn*

CHERRY DEAL: *Schimbe*

FAT WALLETS

HE CAME, HE STAYS HE GETS SEVERANC

HOW WOULD YOU LIKE cash in your severance pa age without getting fir Talk to Henry Schimberg, No. 2 executive at bott Coca-Cola Enterpris Schimberg’s $13 million go en parachute was set up his previous employer, Jo ston Coca-Cola, as insura if he got, er, canned. Wh CCE (44% owned by so drink-maker Coca-Cola) quired Johnston in 19 Schimberg joined CCE. As enticement, Schimberg the right to collect all or p of the bounty—with boa approval, natch. It appe the same deal applies if quits, retires, or is fired.

In his first withdraw Schimberg creamed off million last year, says the est proxy of CCE, now t largest U.S. Coke bottl That’s atop $1.5 million in he earned for 1994. Fami owned Johnston gave h such a lush kitty because didn’t want to grant h stock. CCE denies this is golden parachute, calling “deferred compensation.”

The board argues that h worth it. Says T. Marsh Hahn Jr., who chairs t board’s compensation co mittee: “He is invaluable terms of adding value to t shareholder.” And hey, wh an incentive to keep up t good work. *Maria Mallo*

(CLOCKWISE FROM UPPER LEFT) ILLUSTRATIONS BY ALAN BASEDEN, ROB DOYLE/BW; PHOTOGRAPHS BY STEVE WOIT, (MCCAW) BRIAN SMITH/OUTLINE, (GATES) ANDY FREEBERG/OUTLINE, AP/WIDE WORLD

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Up Front

FEMALE RECRUITS: *A $7 million ad drive*

MAD AVE

HERE'S THE DRILL: MORE WOMEN

THE MILITARY IS LOOKING for a few good women. Its $7 million ad drive to attract women recruits dwarfs past campaigns by the individual services. So from now through September, the military's agency, Bates USA, is placing ads in magazines read by young women, such as *Seventeen* and *Sassy*. In July, TV spots will start. But don't look for macho ads with troops rappelling from helicopters. The focus is on personal growth and education. Print ads show a woman in civilian clothes in an academic setting.

With the just-out-of-high-school population pool shrinking, the Pentagon is turning to young women to fill the gap in the traditionally male armed forces. Last year, it allowed women to perform such previously off-limits military duties as jet fighter pilot, with only ground combat and submarine jobs still *verboten*. Today, women make up 12% of the armed forces, up from 5% two decades ago. By one estimate, their share will almost double in 10 years. ☐

DIVERSITY

LILY-WHITE IN LA-LA LAND?

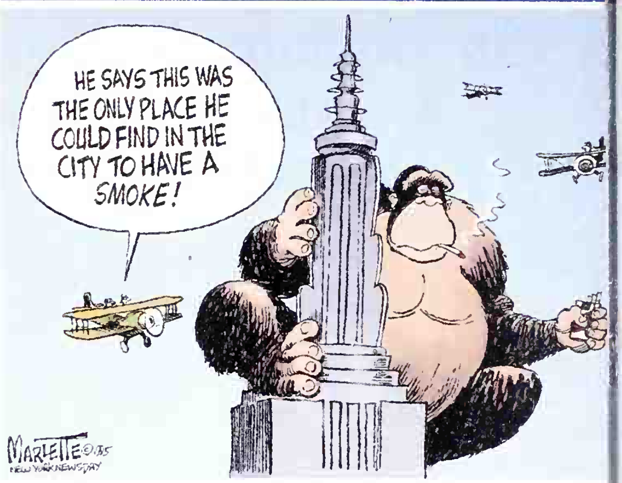
HOLLYWOOD, PLEASE TURN the spotlight on thyself. Affirmative action, a much-maligned concept in Newtville-on-the-Potomac, has its own set of problems in Tinseltown, that bastion of tanned knees jerking. Over the past decade, the Writers Guild has set up 11 programs with TV studios to temporarily bring aboard nonwhite or female scriptwriters—in hopes they would be hired as full-fledged staffers later.

MR. COOPER: *Few black TV writers*

The catch: They work for reduced wages. At studios producing sitcoms for CBS, the affirmative-action hires get half the guild's $2,500 weekly minimum. Publicly, most participants say it's a good opportunity. But some grouse they should be hired full-time at a regular salary. Migdia Chinea-Varela, who has written for *The Facts of Life*, turned down the program, saying the guild is telling her to "sit at the back of the bus." The guild argues that the programs are a good way to expose talent.

Has this push worked? No one tracks how many diversity-program writers have become full-time. But a 1993 Writers Guild study found that minorities make up only 4% of its membership. Even on black-oriented shows, white male writers tend to predominate: Among the 10-member staff at ABC's *Hangin' With Mr. Cooper* sitcom, only 3 are black. *Jennifer Holland*

DRAWN & QUARTERED


HE SAYS THIS WAS THE ONLY PLACE HE COULD FIND IN THE CITY TO HAVE A SMOKE!
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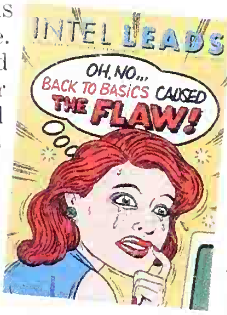
CHIP SHOTS

INTEL LAUGHS TO KEEP FROM CRYING


INTEL LEADS
OH, NO... BACK TO BASICS CAUSED THE FLAW!

ZINGER: *Intel's self-parody issue*

AT LEAST INTEL HAS a funny bone inside. The normally dead serious chipmaker puts out an annual parody issue of its monthly employee magazine. The April issue mocks the company's response to the furor over its Pentium bug, which resulted in a $475 million charge after the company finally agreed to replace the defective chips of anyone who asked.

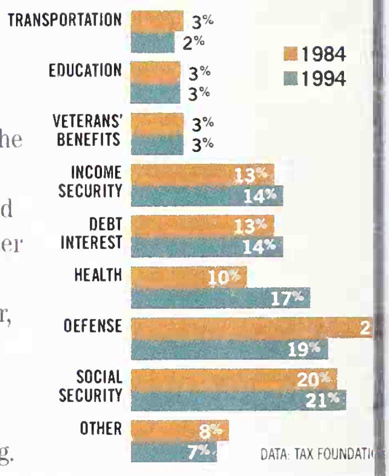
Initially, Intel only would exchange chips with customers who could prove they used the flawed portio the original. The parody a faux ad promising a placement Pentium if o ers submit a 5,000-word say on "why important eno for a new chip and then wait weeks for a re The ad's tag l "It's not a flaw til we say it' flaw."

There's a rea the parody ma zine has so muc ahem—byte. M agement ne sees the issue fore it goes to press, wh may be a good thing. magazine promises that C Executive Andy Grove personally install the repl ment chips. *Robert D.*

THE BIG PICTURE

WHERE THE TAX DOLLAR GOES

Back in the days of the Soviets' Evil Empire, the Pentagon claimed more than one-quarter of your federal tax dollar. A decade later, the military's share has shrunk dramatically. The big gainer: Health-care spending.



DATA: TAX FOUNDATI

FOOTNOTES Average claim settlement for shareholder suits, 1990: **$3.2 million;** 1994: **$7.7 million**

(CLOCKWISE FROM UPPER LEFT) PHOTOGRAPH BY JOHN CHIASSON/GAMMA LIAISON, CARTOON BY DOUG MARLETTE/NEW YORK NEWSDAY/CREATORS SYNDICATE, PETER SIS, GRAPHIC BY RAY VELLA/BW, PHOTOFEST

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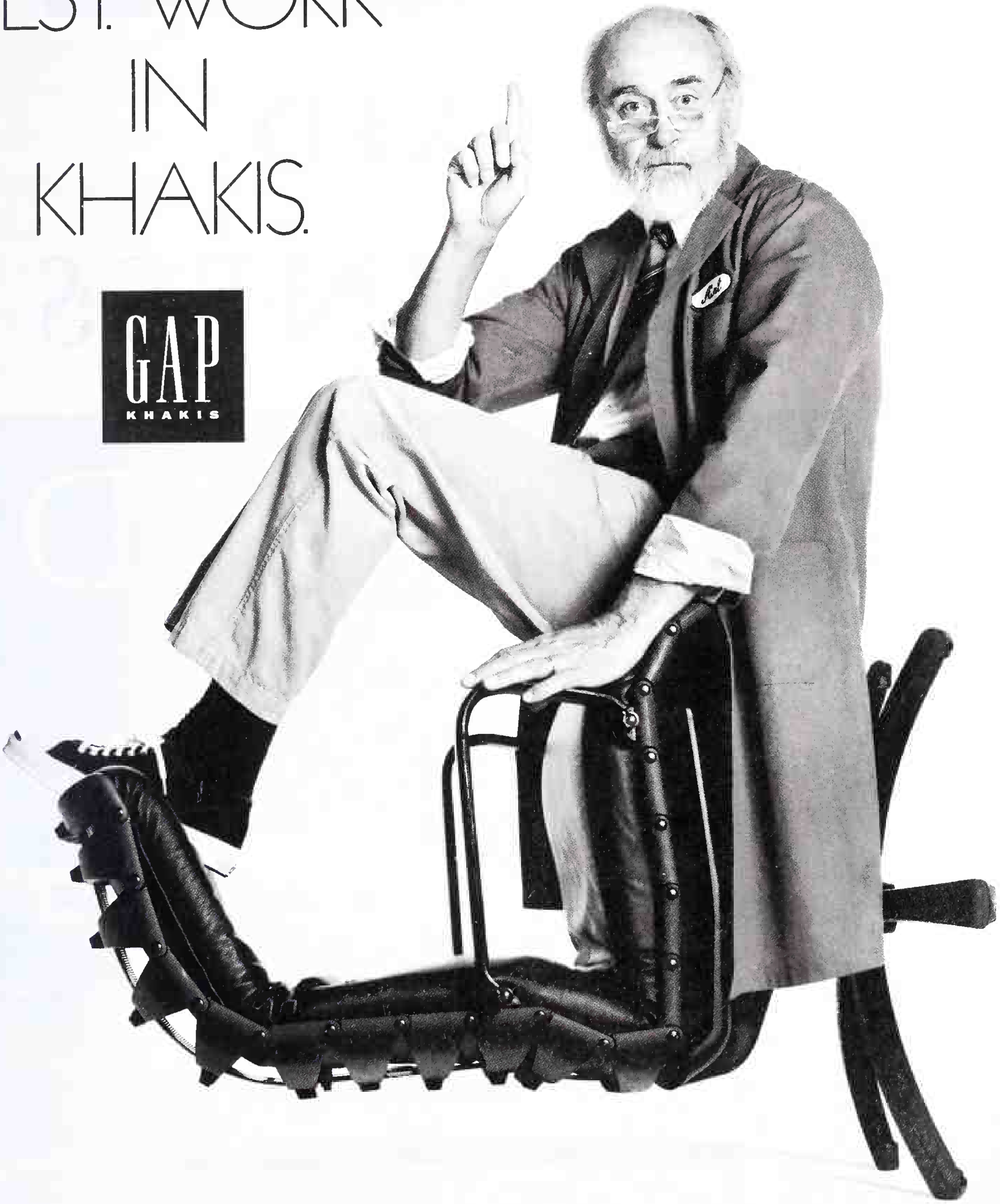

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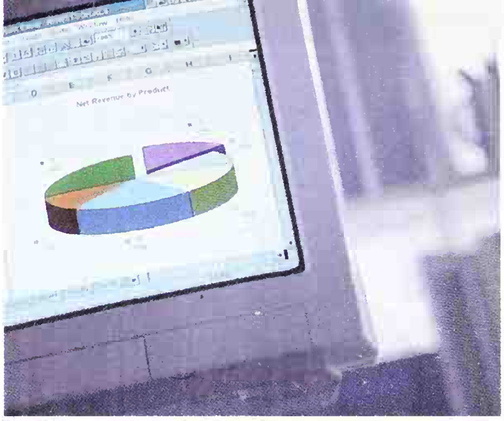
Net Revenue by Product

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NEW BUSINESS

$ These days, a prime source of new business is the business you already have. For Norwest Corporation, selling more products meant fully understanding their existing customers' needs. But with customer profiles fragmented across 12 different databases, it became increasingly difficult to determine who needed what. $ How was Norwest able to better manage its commercial banking relationships and increase revenues in the process? With the help of Gemini,™* a consolidated sales and marketing account management system, built on a foundation of Microsoft® products, including Windows NT™ Server and Microsoft SQL Server,™ part of the BackOffice family. $ "We evaluated other systems, but only Microsoft gave us the power and flexibility we needed to reach our goals," says Daniel G. Pocrnich, Chief Financial Officer at Norwest Bank Minnesota. Gemini provides a comprehensive view of ever-changing customer profiles. So customers receive more personalized service. And cross-selling opportunities become abundantly clear. The result? Products sold to existing customers increased by 34 percent. What's more, Norwest increased account fee revenues from 39 to 60 percent of total revenue. $ To get more information on how Microsoft can help you gain a business advantage using computers, call (800) 437-3119, Dept. GN4.

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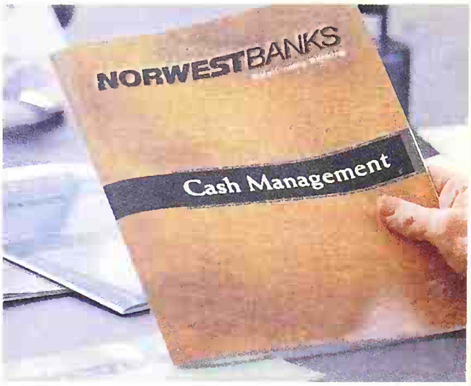

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Readers Report

IS JAPAN BENT ON DOMINATION?

Your Apr. 10 issue, with various articles on Japan ("Japan's new identity," Cover Story), paints a rather alarming picture of an emerging giant, sword in hand, whose dominating ambition seems to be hidden in the shadows.

What was never stated outright is the question of whether Japan in the '90s is deeply reminiscent of prewar Imperial Japan. There seem to be hints of the philosophy that gave rise to Japan's rallying cry before World War II: a strategy to exert influence via economic power rather than military might, using that power as both a defensive and an offensive weapon. Although a defensive posture can be explained by the fear of a growing and stronger China in the Far East, there is also the offensive mind-set of an island nation bent on expansion of territorial riches measured not in geographical terms but in derived economic value.

Economic dependence can be just as strong a weapon as military occupation and much less costly, but with all the benefits flowing to the conqueror.

Let us hope that the premise of an Imperial Japan is not forthcoming and that the Japanese will use their economic muscle to improve life in the emerging nations they operate in, and foster peaceful economic coexistence in the Pacific Rim, thereby benefiting the world as a whole.

Lawrence A. Beer
Paradise Valley, Ariz.

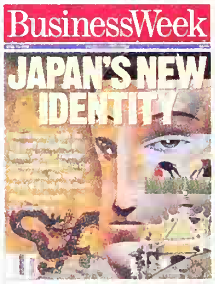
As a non-American and a student of Asia, I am appalled at the shortsightedness of the American attitude toward Japan. Whenever the yen appreciates against the dollar, there is a spate of articles such as your Cover Story.

The gist of all this is that Japan is some monstrous, monolithic entity bent on subverting the "American way." This is remarkably silly. The real th to the U.S. is not Japan but Ch

There are two possibilities, fraught with danger. The first is China succeeds wildly. Then imagin alliance that marries Japanese brai Chinese brawn. The second possibilit that China implodes into open fratric war. This will certainly spill over Southeast Asia and South Asia. W plenty of nuclear weapons, the Chi can wreak a lot of havoc.

In either scenario, the U.S. ne Japan as a counterweight and an Instead of alienating Japan and blam it for your own budgetary proflig and lack of competitiveness, you Am icans ought to cooperate with To more, not be shrill scolds.

Eureka Kingsley-Raj
Stanford, Ca



WHO'S REALLY AT FAULT

"Instead of alienating Japan and blaming it for your own budgetar profligacy and lack of competitiveness, you Americans ought to cooperate with Tokyo"

In our current circumstances of de oping an export-intensive profita economy, I thought the issue of Japa turning to East Asia was very tim well-written, and thoughtful. I beli Japan is trying to develop an econo community similar to the European ion and NAFTA to buffer global econ ic tremors and landslides.

Basically, for the U.S. to escape tionalistic and regionalistic paroch ism in Europe and East Asia, it has overcome the economic weakness now have and make a charge at EC and East Asia. Easier said th done, I'd say. I believe I might not l long enough to see U.S. workers a leaders develop the seamless soc political, and ideological unity th Asians find possible to achieve becau

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of their philosophy and temperament.

Lawrence E. Dunlap
Houston

In response to your editorial "What Japan's Asia tilt means" (Apr. 10), I say shame on this country and the leaders running it. More so, shame on the American people who put them there and do nothing about it. This trade problem is not going to go away on its own. It's long overdue that we as a nation stand up strong against the Asian bloc and start putting our interests in the foreground.

Anthony R. Zopich
Staten Island, N.Y.

BILL GATES, PRO AND CON

If Microsoft Corp. is anywhere near as contentious as its chairman ("Bill Gates, uncensored," Information Processing, Apr. 10), I'm not surprised its competitors are so upset.

David Frank
Baldwin, N.Y.

Bill Gates helped create a new world of opportunity for millions. If it were not for the advent of the personal computer, I could still be working at a cemetery digging graves for a living. Bill Gates should be appreciated for his contribution to the PC. He is a savvy visionary who, like Henry Ford, gives the average person mobility. Gates has molded a very complex industry from infancy to maturity. He has aided in unlocking the human mind to its greater potential, allowing individuals the independence to work anytime and anywhere.

Let the cynics and critics whine and whimper about Bill Gates's short-term failures. As for me, one who benefited greatly from his long-term successes, I say: Thank you very much, Mr. Gates.

Marc Rinehart
Clinton, Ohio

Bill Gates says that everything Microsoft does is for the benefit of the industry, that the company has never knowingly done anything wrong. This sounds like IBM's position in 1969, when it was sued by the Justice Dept. for antitrust violations for the third time.

Today, a new menace dominates the industry in the form of Microsoft. And the tactics it used to dominate today's software industry are identical to those used by IBM. An entire industry—one responsible for much of the innovation and leadership that keeps America at the forefront of technology—is at risk. Here are the things Justice should do to aggressively pursue Microsoft:

1. Bring suit against Microsoft. The suit would bring immediate relief for software companies, since Microsoft will necessarily become more cautious—just as IBM reacted in the 1970s.

2. Openly propose to break Microsoft up. In the past, the courts have applied the principle of maximum separation to prevent the use of economic power in one distinct line of commerce for competitive advantage in another. By dividing Microsoft into an operating systems company, an applications company, a multimedia company, and a network services company, the Justice Dept. can level the playing field and create an environment where innovation and advancement can take place.

3. In the shorter term, the government should seek a preliminary injunction against Microsoft. Some immediate relief is needed by other software companies and by users. Most important, software vendors need to be able to reverse-engineer Microsoft's operating system. The government should also require Microsoft to operate its Network service as a separate subsidiary and force Microsoft to erect "Chinese walls" between its operating system groups and its application groups.

4. Turn down the Intuit acquisition. If this acquisition is approved, it should only be under the condition that it operates as a separate company.

A healthy market for growth and innovation demands that Microsoft be reined in. No one is in a stronger position to do that than the Justice Dept.

Martin A. Goetz
Teaneck, N.J.

Editor's note: Goetz co-founded and was president of the software company Applied Data Research. In that role, he assisted the Justice Dept. in its suit against IBM, testifying at the trial as a government witness.

CORRECTIONS & CLARIFICATIONS

In "Japan's new identity" (Cover Story, Apr. 10), Faye Wang should have been identified as a Hong Kong, rather than a Taiwanese, singer.

In "Jock market" (Up Front, Apr. 17), Viacom was incorrectly said to have 100% ownership of the Florida Panthers. The team is owned by H. Wayne Huizenga, a Viacom board member, who has the right to transfer that ownership to Viacom.

WILL THE REAL PETE WILSON . . .

Yes, California Governor Pete Wilson has been the pro-taxes, pro-choice, pro-gun control, and pro-gay rights candidate ("A grand old brawl," Ne
Analysis & Commentary, Apr. 10).

And yes, Wilson is now the tax-
ter, the anti-immigrant, and the a
crime Presidential candidate.

But Wilson is from California, wh
will gave him lots of campaign mo
and media attention—and this sch
phrenic candidate could win N
Hampshire.

Bob Mulholl
Campaign Adv
California Democratic Pa
Los Ang

EXPORT PROGRAMS DON'T NEED WASHINGTON'S HELP

Reading "Welfare cuts: Now, it's C
porate America's turn," (News: Anal
& Commentary, Apr. 10), I'm torn
tween my long-held belief that anyth
that promotes U.S. exports is w
funding and my knowledge that Co
merce Dept. export activities are m
ginal at best.

In a 1981 survey by the University
North Carolina at Chapel Hill, the hi
est rating given by business leaders
any federal export promotion progr
was 6 out of 10. (When I went to sch
60% was an F.)

Exporters today are well served
university, community college,
World Trade Center programs, an
huge cast of consultants, export agen
export management companies, e
Subsidies that entail support
bureaucrats in Washington are
needed.

David Thom
Associate Dean, University
North Carolina at Chapel

*Editor's note: Thomas is the form
president of Northern Telecom Ja
Inc.*

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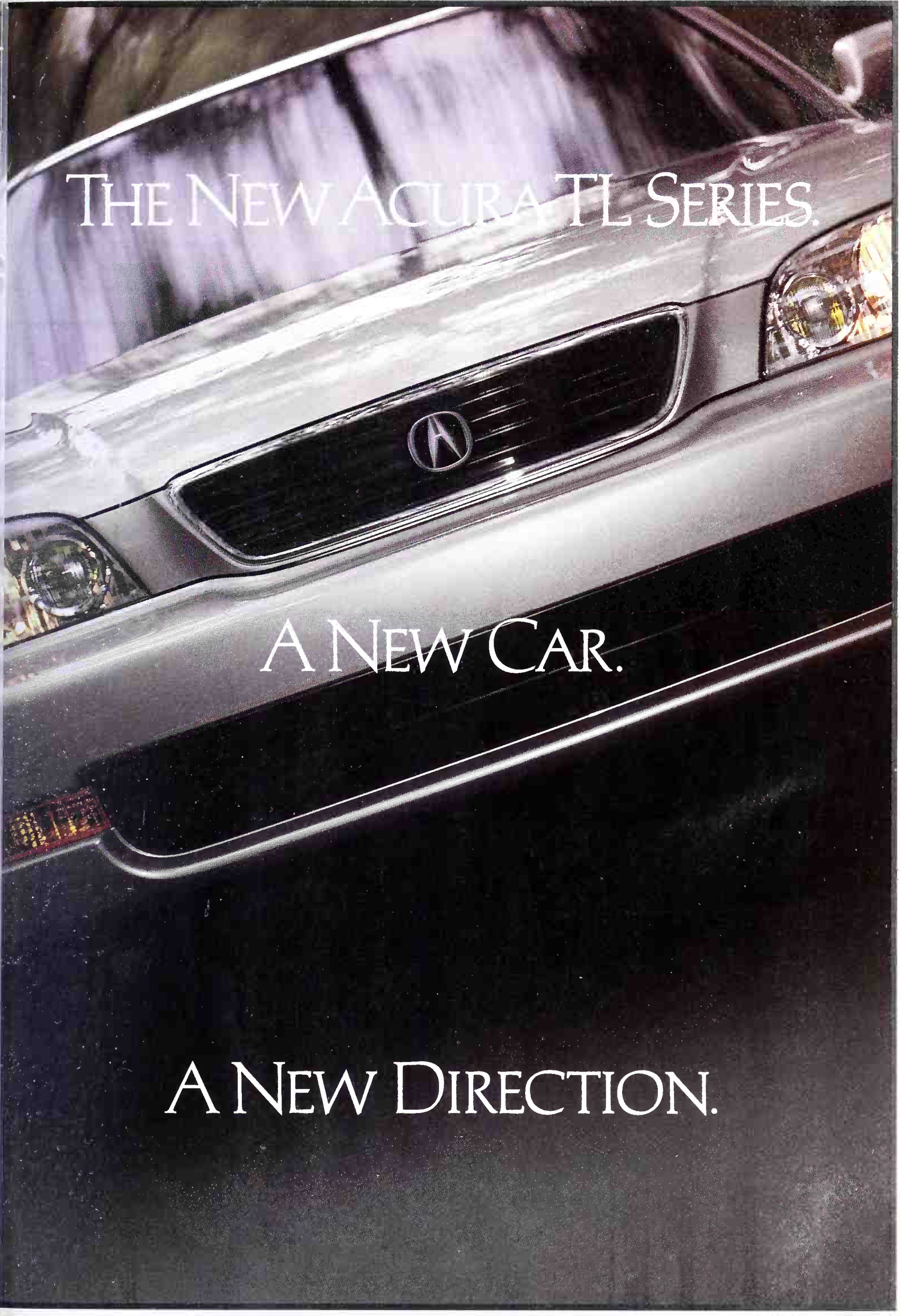
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SOME THINGS ARE WORTH THE PRICE

ACURA

BY STEPHEN H. WILDSTROM

A CLONE THAT'S AN APPLE AT ITS CORE

At first glance, the new machine from Power Computing Corp. looks like just another no-name PC clone. But look closer and you'll notice there are two little buttons where the reset switch should be, and the floppy drive has no eject button. Yes, Macintosh clones are here, and an early look suggests their arrival is good news for users.

When IBM clones appeared in the early '80s, they ushered in the era of super-cheap computing. They also introduced incompatibilities that plague the Windows/DOS world to this day. The Mac clones are off to a different start. Apple Computer Inc., which blocked imitators for over a decade by refusing to license its basic operating system, now fully backs the cloning effort as a way to build market share for its software (BW—Apr. 24). The Power Computing units use Apple-designed chips, have Apple software loaded in read-only memory, run the Mac OS operating system, and boot up displaying the familiar "happy Mac" icon. For all practical purposes, they're Macs.

FIT AND FINISH. As with PC clones, price is the main attraction. Power Computing's Power 80, without a monitor, sells for $2,599, about $400 less than the street price of a comparable Power Mac 7100/80. They will begin shipping in May, although the machines will be in short supply until midsummer. Both to minimize costs and to avoid direct competition with Apple's established retail channels, Power Computing will stick to direct sales (800 999-7279, or E-mail to info@powercc.com).

Power Computing's clone lacks some of the industrial-design touches for which Apple is famous. The modified PC case is clunky, and the power supply is an off-the-shelf PC unit from Taiwan. Other than that, it shows few signs of cost-cutting efforts. First-quality components, including an Apple keyboard and mouse, are used throughout. The circuit boards, even on the preproduction Power 100 that I used for evaluation, were free of the patches that indicate last-minute repairs. Probably the most significant functional departure from the Mac design is the inclusion of an extra video connection that allows you to hook up a standard PC monitor without an adapter.

Given this high level of compatibility, it's not surprising that in a weekend of putting the Power 100 through its paces, it gave every appearance of being simply a very fast Power Mac. I connected it to AppleTalk and NetWare networks without difficulty. The quad-speed CD-ROM drive did fine with multimedia presentations. Programs that challenge memory and processor power, including Wolfram Research Inc.'s Mathematica and KPT Bryce, performed without a hitch. The Power 100, with its 100-megahertz PowerPC 601, 16 megabytes of memory, and high-performance video system, is designed to compete with Apple's top-of-the-line Power Mac 8100/100. Predictably, it knocked the socks off my Power Mac 6100/60.

The initial Power Computing models compete with the top of the Apple line. Future offerings will go up against low-end Power Macs, the 6100 and Performa series. And like the clonemakers of a decade ago, Power Computing isn't content just to imitate: "Later this year, we'll start to add features that are unique to our own boxes," says Bob LeVitus, director of evangelism.

That could be a mixed blessing for consumers. Competition and larger market share could bring users better, cheaper machines. But it could also destroy the Apple-enforced consistency and uniformity that have long made using Macs such a pleasure.

PowerComputing

MOCKINTOSH: *The Power 80*

[illegible] BY ROBBIE M[illegible]

Mac Clones Close the Gap

	DELL DIMENSION XPS P90	POWER COMPUTING POWER 80
PRICE	$3,499	$3,398
PROCESSOR	90-Mhz Pentium	80-Mhz PowerPC 601
MEMORY	8 MB main, 2 MB video	8 MB main, 2 MB video
HARD DISK	1 gigabyte	730 MB
MONITOR	17-in. Dell U17ES	17-in. Ikegami CP17A
CD-ROM	Quad speed	Quad speed

BULLETIN BOARD

PRINTERS

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If you've wanted a top-quali color printer for your network but balked at the $10,000 price tag, your wait may be over. With a list price under $5,000, the new Phaser 340 from Tektronix (503 682-7377) uses a crayon-like sol ink to produce beautiful colo output at four pages a minute. Color laser printers, whose prices start at around $7,000, can turn out black-only text at high speed. But the Phaser 340 is really only practical for color work. A te page takes as long to print a a color graphic, and the wax gloss that makes the color output more vibrant than the laser's muted tones can be distracting on straight text.

SOFTWARE

KILLER APPLICATIONS

Spring graduates looking for their first real job can get a bit of help in the grueling pr cess from Resume 3.0 from WinWay Corp. (800 494-6929). The $50 Windows program helps you prepare a résumé and application letters The CD-ROM version includes interactive videos designed t prepare applicants for interviews. While much of the information is a bit simplistic for the seasoned job-seeker, the help in preparing an effective résumé and advice or how to handle tough intervie questions could give first-time applicants a leg up.

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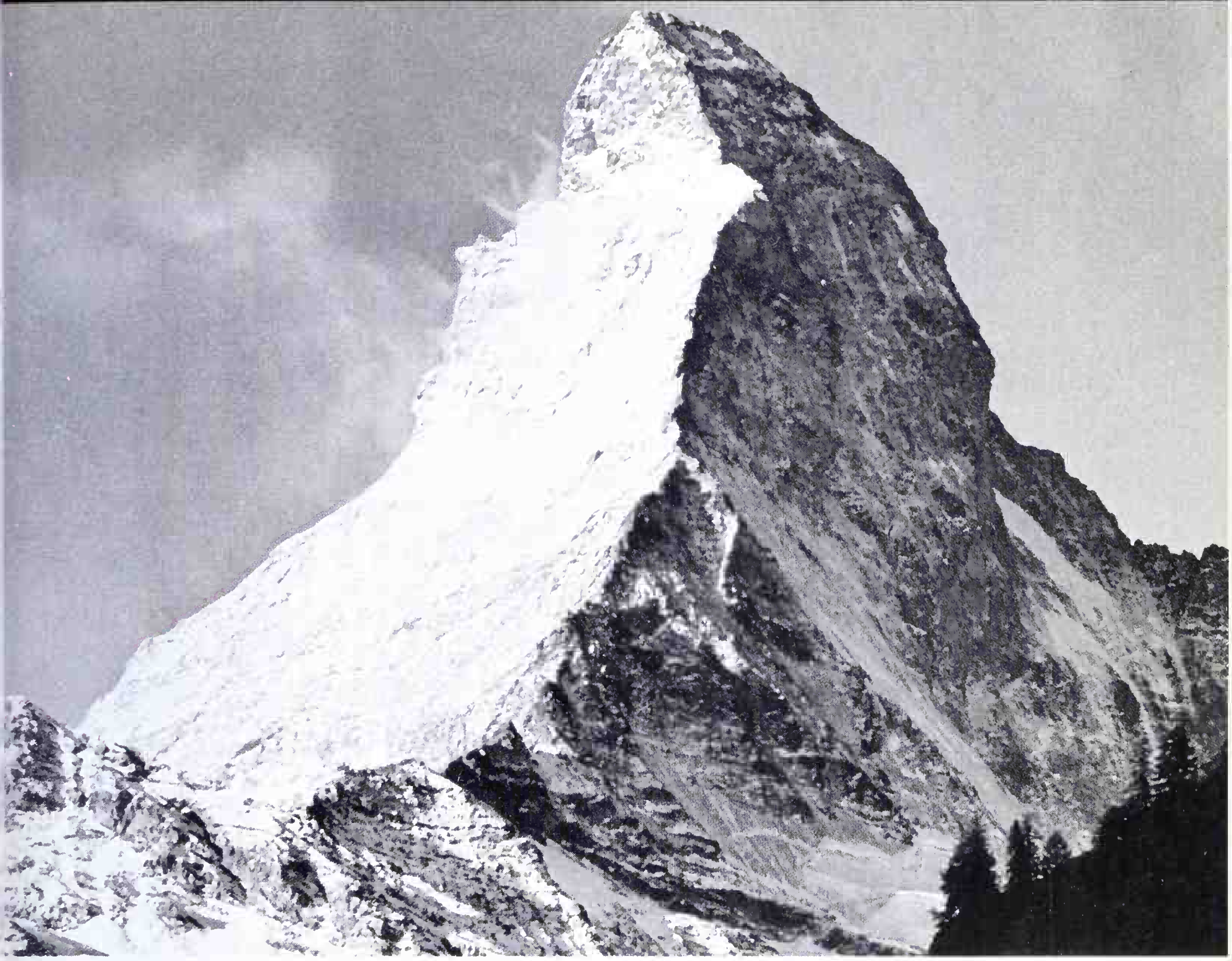

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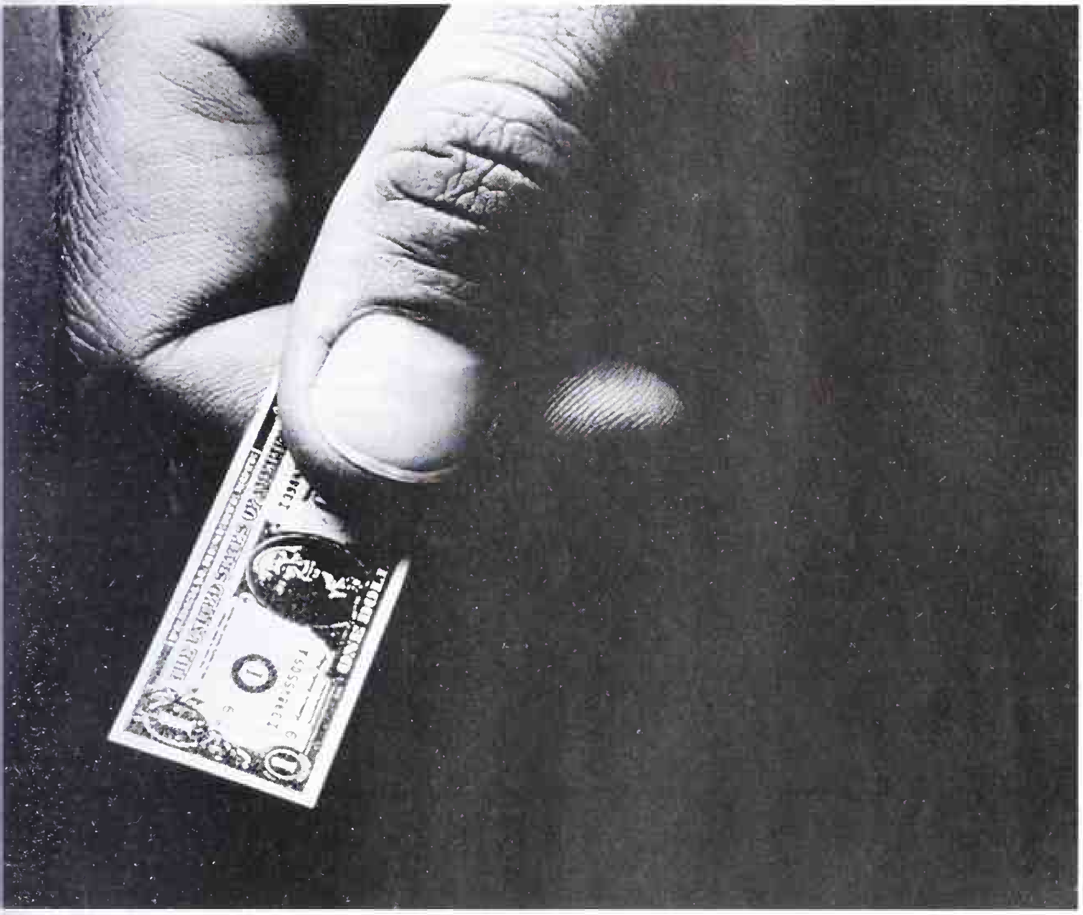

and individuals get stronger. This capital is being used to buy and lease equipment, improve productivity and product quality and take other steps necessary to prosper.

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Letter From a Kibbutz

CHICKEN PLUCKERS IN THE PROMISED LAND

BLUE-COLLAR KIBBUTZ: *The author on the factory floor*

PHOTOGRAPH BY REUVEN KOPITCHINSKI, CHART BY ALAN BASEDEN

It's 3:45 a.m. on a Wednesday, and my injection-molding machine hasn't broken down so far. It's a small blessing, sure, but one of the delights that helps get you through the night shift at the Duram Rubber Products factory here on Kibbutz Ramat Hakovesh in Israel.

I make widgets. Actually, I make chicken pluckers, which are used to pull feathers off poultry, but I've never been in a poultry processing plant. As far as I'm concerned, the pieces I help make might as well be widgets. The Duram rubber factory makes a wide range of chicken pluckers for a wide range of chickens. There's a difference, you know, in how hard it is to pull feathers off various sorts of chickens. This is what a kibbutznik told me when I first started working in the factory. I'm learning a lot here. I've almost mastered the injection-molding process. One of the mechanics is teaching me how to troubleshoot the two Italian-made machines in my charge. I wear work boots and heavy gloves, and it's hard to remember that I once sat behind a desk in the midtown Manhattan headquarters of BUSINESS WEEK and pondered corporate takeovers and trade negotiations. Indeed, in the nearly three months I've been on Kibbutz Ramat Hakovesh as a volunteer and Hebrew student, I believe I've adapted well. I think light manufacturing becomes me.

Today, many of the 280 kibbutzim in Israel depend on some form of manufacturing for a percentage of their income. Some of these factories, like the Duram plant, bring in the bulk of kibbutz revenues, linking the success of the kibbutz as a whole to the plants' health and profitability. That capitalism would play such a big role in supporting the socialist communal ideal on which the kibbutzim were based is probably something the Zionist founders of the collective movement would not have endorsed. But changes are necessary if the kibbutzim are to survive into the next cent
Although only 3% of Israel's popula
live on kibbutzim, the concept hel
build the country and then helpe
the military as well as social fight
keep Israel intact. Today, the kib
remains a uniquely Israeli institutio

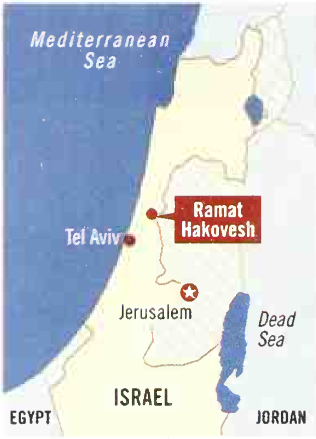
The first kibbutz, Degania, was fo
ed in 1909 by a group of young J
from Eastern Europe who wante
flee the ghettos and the cycle of pogr
These first Zionists returned to P
tine, determined to conquer the l
The physical labor was often punish

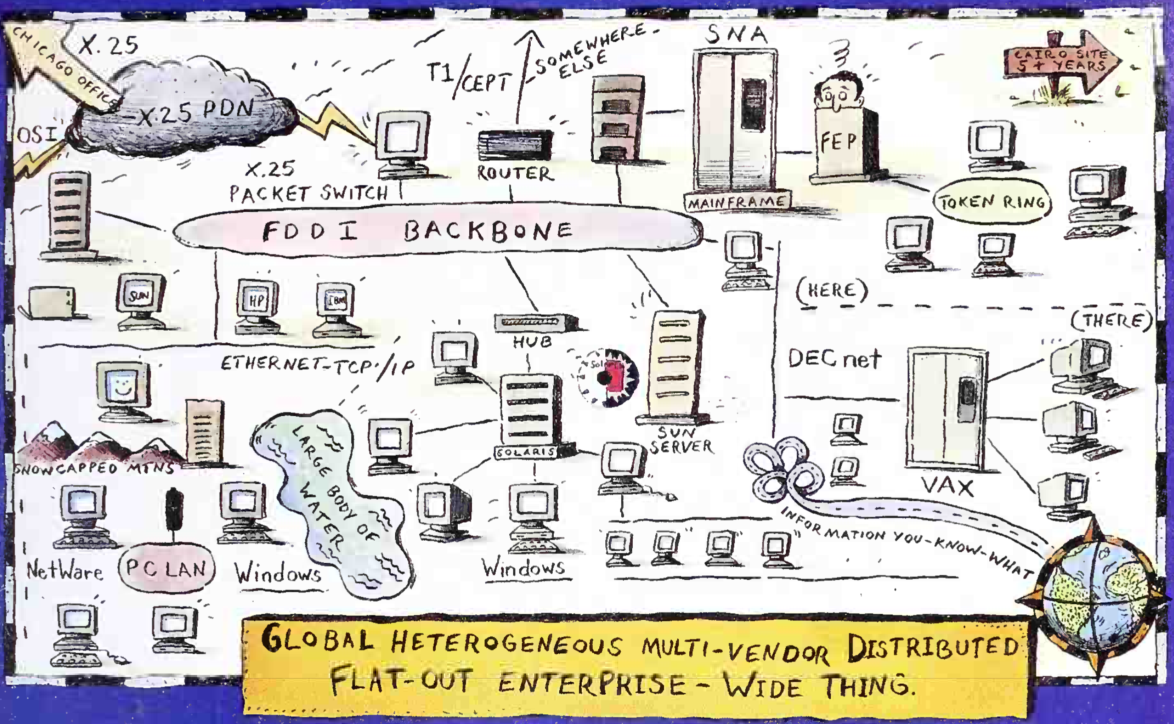
The founding members of Kibbutz
mat Hakovesh were from Poland
had barely held a hoe in their hands
fore coming to this patch of land in
Sharon region. The parcel, purchase
a wealthy English Jew in 1936 fro
Arab family, was surrounded by t
hostile Arab villages. Not for not
they called the kibbutz Ramat H
vesh. Ramat means "hill" in Heb
Hakovesh? "Conquer." From 1939-48,
kibbutz was under a constant stat
siege, with frequent attacks, snipers,
mines. Until the Six Day War in 1
Ramat Hakovesh was on the front
between Israel and Jordan.

SOLES AND PIPES. But just when
physical safety was assured, the kib
had to start worrying about its fi
cial security. When agricultural pr
began to drop in the 1970s, the
butz—like many others—turned to m
ufacturing. The Du
factory started in 197
a small shoe-sole op
tion. It was unprofit
for nearly 10 years
was supported by
greater kibbutz. Eve
ally, however, a grow
export and domestic
tomer base and impro
production led to ex
sion into new produ
such as gaskets and
rings for irrigation, dr
age, and sewage pipe

But in 1979,
biggest O-ring custo
Iran, closed down trade with Israel,
Duram had to find another niche.
found chicken pluckers. Today, the
the factory's main export item. Du
holds 40% of the $8 million U.S. m
ket. In 1994, factory revenues were
million out of a kibbutz total of $
million. For competitive reasons, t
output for the year is a figure the fa
ry declines to discuss. Profits go dir
ly back into kibbutz reserves, which
ly support its members.

"If the factory were not successfu

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SLSTIB

Letter From a Kibbutz

BACKBREAKING PHYSICAL LABOR: *Building a kibbutz in 1949 in northern Israel*

AP/WIDE WORLD

would hurt the whole kibbutz," says Haim Routzky, 44, the plant's general manager. Like the other workers here, he does not draw a salary but gets a quarterly allocation that takes care of family expenses apart from food, housing, and health care, which are entirely paid for by the kibbutz. The factory gives most of its revenues to the kibbutz for these expenses, while allocating a percentage each year for factory upkeep and expansion.

RUSSIAN INFLUX. Running a successful business isn't easy on a kibbutz. Individuals don't stand to gain from innovation or higher quality. And until recently, the idea of profit and moneymaking for its own sake weren't values much embraced by hardscrabble kibbutzniks. Each time Routzky wanted to send workers on important business trips, say, to trade shows or seminars, he had to convince the governing body of the kibbutz that the travel wasn't frivolous. Travel paid for by the kibbutz was seen as a reward—the idea of travel for business was a strange concept. As business grew, however, Routzky, a tall, affable man whose family came from Poland and who was born and raised on Ramat Hakovesh, was eventually able to show the links between travel and new-business generation.

Another problem: With no plant hierarchy and no individual monetary rewards, how could workers be expected to put their all into productivity and efficiency? "All members own a piece of the factory," says Routzky. "But that doesn't necessarily translate into harder work.

The influx of Russian Jews into Israel, however, has brought highly motivated and skilled workers to kibbutz factories. Some 540,000 such immigrants have landed since 1989, and to stave off overcrowding in Israel's immigrant housing, the government asked the kibbutzim to house, employ, and teach Hebrew to some. There are 15 such new immigrant families living in temporary trailer homes at Ramat Hakovesh. These families are not members of the kibbutz and are expected to leave and make their own way after two years. But while here, they earn salaries (triple time for night shift), study Hebrew and Judaism, and generally become acclimated to their new country.

It used to be said that anyone working at a kibbutz but not a member would find it hard to get to know the permanent kibbutzniks. I have not had that problem: Kibbutzniks have invited me into their homes for dinner, and they seem to appreciate hard work and friendliness.

As the factory continues to prosper, the benefits are hitting the kibbutzniks where they live. Members of the kibbutz today have luxuries undreamed of 15 years ago. Each fa ly is allotted a p sonal stipend whatever expen the kibbutz does cover. That me you can find a and a couple of PC just about any k butznik's home th days. Since the fac ry accounts for 6 of the kibbutz' come, keeping fac ry production up a direct impact on worker's well-bei That is directly in with the original k butz ethic. "The mi set is not for perso profit," says Routz "The mind-set is the kibbutz."

Unfortunately, this attitude is cha ing, especially with the younger gene tion. Money, with the material poss sions and personal freedom it brings drawing many young kibbutzniks out their cloistered lives. The kibbutz populations are aging, and in some ca this means a shortage of labor. Risi costs, foreign competition for produ sales, and ongoing political tensions also taking their toll on the moveme

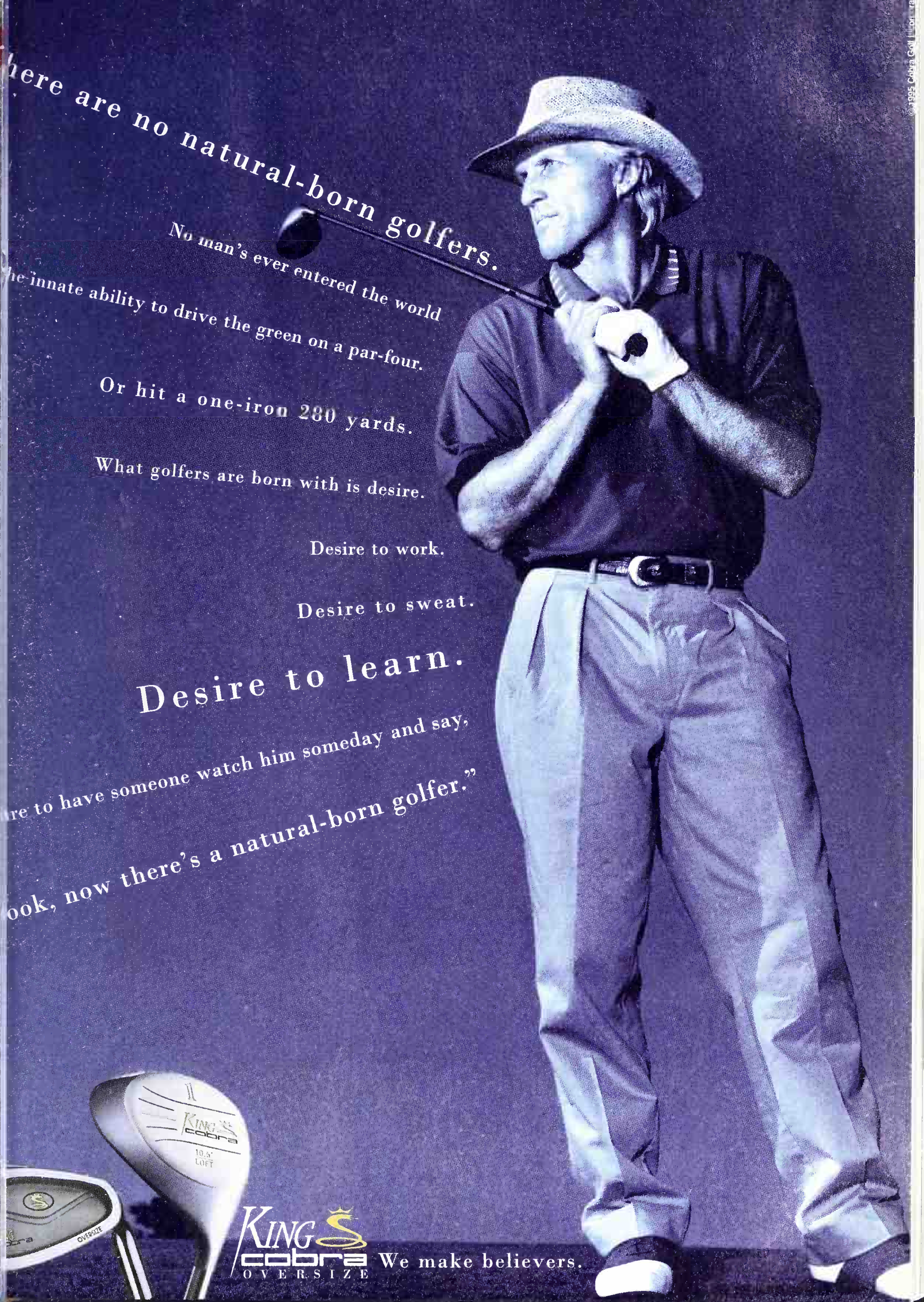
MODERN WAYS. More and more, k butzniks are encouraged to take o side employment, with the understa ing that they remit their salaries b to the kibbutz. This also lures aw members, some because they want keep their own money and make th way on the outside. Others marry n kibbutzniks and leave the movement

But Ramat Hakovesh has shown t a kibbutz can modernize and compete the open market while maintaining roots in the land and its commitment a communal lifestyle. When my sh ends at 5 a.m., I'll walk to the edge the fields and watch the sun rise ov the West Bank, less than two mil away. Then I'll have breakfast in t communal dining room and watch t old kibbutzniks with their memories a the young kibbutzniks with their hop for the future.

JULIE TILSNE

Tilsner is on a six-month work/stu stint at Kibbutz Ramat Hakovesh.

When profits from agriculture began to drop in the 1970s
Kibbutz Ramat Hakovesh turned to manufacturing



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BOOK BRIEFS

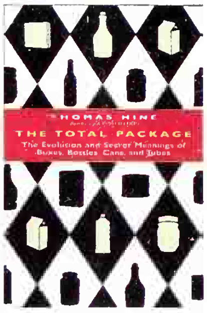
THE TOTAL PACKAGE
The Evolution and Secret Meanings of Boxes, Bottles, Cans, and Tubes
By Thomas Hine
Little, Brown • 289pp • $24.95

WRAP SESSION

Anyone who has ever pushed a cart through a supermarket knows that packaging is more than just paper and cardboard. Every stroll through the aisles subjects us to the screaming messages of 30,000 bagged, boxed, canned, and frozen bundles. Candy wrappers, fast-food containers, soda cans—packages are so ubiquitous that most of them fail to register in our consciousness.

But that doesn't mean containers go completely unnoticed. In *The Total Package*, Thomas Hine tackles the more subtle roles that packages play, from substitute sales clerk to subliminal emotional trigger.

Hine, a design critic for the *Philadelphia Inquirer*, starts with the earliest packages of antiquity—the clay vessels that allowed traders to tell an amphora of oil from an amphora of wine. Today, Hine points out, rather than packages arising as a means to distinguish products, we have products arising as a way to fulfill the promise of a successful package.


THOMAS HINE
THE TOTAL PACKAGE
The Evolution and Secret Meanings of Boxes, Bottles, Cans, and Tubes

But the heart of Hine's book traces the rise of the mass-market, consumer-goods package, and it's here that he is at his best. At the start of the century, everything from sugar to soap was bought and sold as a commodity. Then, the arrival of packages, with their promise of predictability and quality, allowed the emergence of national brands. And instead of asking a grocer to measure out five pounds of flour, buyers helped themselves to premeasured bags. Ninety years later, pa ages have almost eliminated the gro or sales clerk from the store. Lab bearing instructions, recipes, and pr uct specifications do the job now.

By bypassing the retailer, packag allow the manufacturer to speak dire ly to the customer. In a si of a second, they communic volumes about price, val quality—even class aspiratio

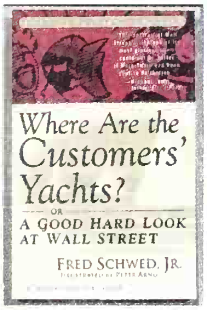
Hine does a good job showing the transformation packages from mere conta ers to sophisticated commu cation devices, though he ters when he gets a lit further afield—for examp trying to relate the fall of co munism to poor packaging. In an age which everything from the food we to the political candidates who wo lead us come prepackaged, it's importa to think occasionally about the wra ping that veils the substance.

BY MARY KUN

WHERE ARE THE CUSTOMERS' YACHTS?
A Good Hard Look at Wall Street
By Fred Schwed Jr.
Wiley • 215pp • $16.95 paper

GOLDEN OLDIE

Fred Schwed Jr.'s classic look at the world of high finance begins with a bit of cynicism: " 'Wall Street,' reads the sinister old gag, 'is a street with a river at one end and a graveyard at the other.' This is striking but incomplete. It omits the kindergarten in the middle…." A novices' guide to the Street first published in 1940, *Where Are the Customers' Yachts?* is now being brought before a new generation of investment tyros thanks to John Wiley & Sons, the publisher that last year revived another account of bygone years, Edwin Lefèvre's *Reminiscences of a Stock Operator.*


Where Are the Customers' Yachts?
OR
A GOOD HARD LOOK AT WALL STREET
FRED SCHWED, JR.

The "kindergarten" that Schwed refers to is actually more of a dartboard—with the investor as the target. Throwing the darts, and getting a lashing from Schwed and famed *New Yorker* cartoonist Peter Arno, are an assortment of suspects that have stood the test of time—speculators, bankers, economists, fund managers, and financial seers. Still, the book at times seems antique: Of the archetypical banker, Schwed observes: "He says 'yes' only a few times a year. His rule is that he reserves his yesses for organizations so wealthy that if he said 'no,' some other banker would quickly say 'yes.'" My, how times have changed.

A few words of caution are in order: The author's style is old-fashioned, and the portrait of Wall Street's mores wouldn't pass a 1990s political-correctness exam. The Street back then was even more a white man's world than it is today, with women relegated to the secretarial pool.

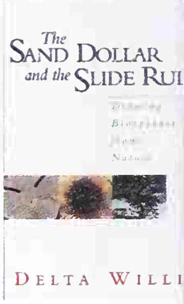
BY GARY WEISS

THE SAND DOLLAR AND THE SLIDE RULE
Drawing Blueprints from Nature
By Delta Willis
Addison-Wesley • 234pp • $23

NATURE AS MUSE

Engineers have sought inspiration from nature for centuries, but never more so than today. Each week brings fresh news of projects to use DNA as a computer or to build airplane wings with microflaps that function like feathers on birds' wings. The timing is right for *The Sand Dollar and the Slide Rule* by journalist Delta Willis, which probes how the forms of plants and animals are uniquely suited to environmental challenges, from kelp that withstands crashing waves to the skeleton of the frigate bird, which has a seven-foot wingspan yet weighs only fo ounces. And it shows how these ha influenced engineers and designe ranging from Leonardo da Vinci to Pa MacCready, inventor of the Gossam Condor ultralight aircraft and Gene Motors Corp.'s Impact electric vehic

Willis' book has enough examples a thousand cocktail-party asides. Did you know, for instance, that the Romans were able to fling 90-pound rocks a quarter-mile by using human tendons for springs? Or that the Eiffel Tower's spreading base was inspired by the oak tree?



Willis introduces dozens of scienti who try to extract the engineering crets of Mother Nature. The one w comes through most clearly and sy pathetically is D'Arcy Thompson, t Scottish biologist whose 1917 classic *Growth and Form* disputed Darwinis by arguing that physical forces, such wind and gravity, not natural selecti determined the shapes of living thin

Sand Dollar has some flaws: It h too few illustrations and photograp And Willis has a jumpy, kinetic writi style that is long on anecdote and sh on methodical explanation. Nonethele *Sand Dollar* is a good read for en neers, naturalists, and wannabes.

BY PETER C

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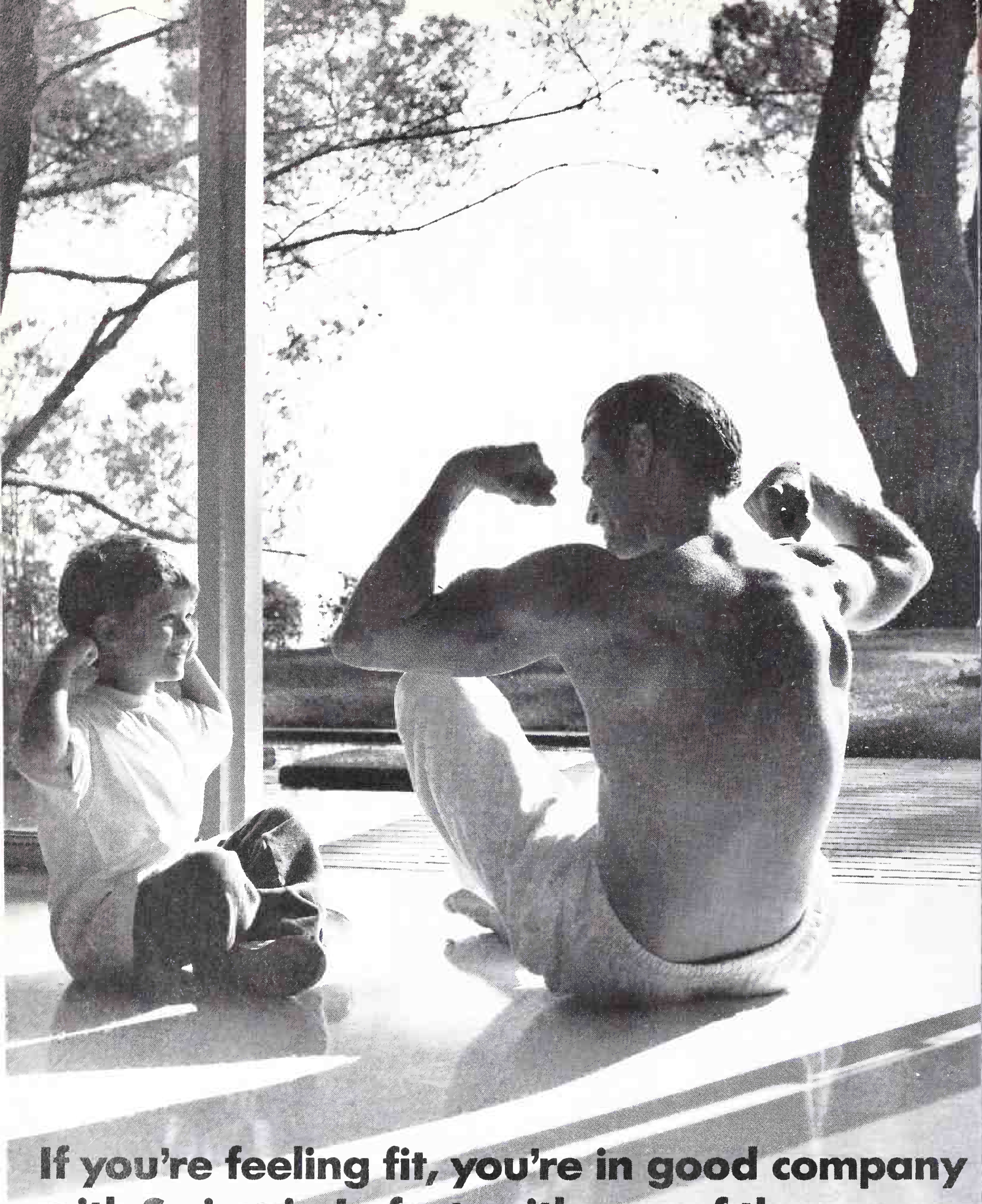

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RETROSPECT
TRAGEDY AND LESSONS OF VIETNAM
Robert S. McNamara with Brian VanDeMark
es • 414pp • $27.50

McNAMARA SPEAKS—
UT STILL DOESN'T SEE

First, cards on the table: There was a time when I hated Robert McNamara. In 1966-67, when he nearing the end of his tenure as ense Secretary, I was a student at umbia University. I bitterly opposed Vietnam War, and he was so identi- with it that many people called it :Namara's war."

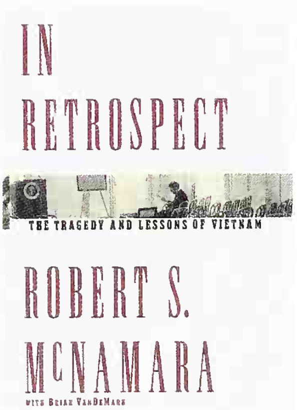
wenty years later, while research- a book on Vietnam, I found that ings about McNamara still ran hot. I ecially recall one vet who had lost an to "friendly" helicopter fire. During interview, he suddenly broke out: u know who I really can't forgive? McNamara. Where does he get off ning that war and then quitting and er saying another word about it? I an, who gave him the right to re- n silent?"

Vell, now McNamara has spoken. His noir *In Retrospect* breaks the public nce he has maintained concerning tnam for some 27 years, ever since left the Pentagon on Feb. 29, 1968, ake over the World Bank. The book n insider's account of what he sees one of the catastrophes of American ory—and while it is disappointing, it lso fascinating.

IcNamara is a figure of such stature t the tale of his involvement with tnam approaches tragedy. President Ford Motor Co. at age 44, he was ied as a manager, a genius of sys- s analysis and quantification. He was uably the very brightest of "the best the brightest" whom Kennedy ught to Washington. He presided r U.S. escalation in Vietnam, yet wly became convinced the war could be won, making it impossible for to remain in Johnson's Cabinet.

Jnfortunately, McNamara plays down personal drama of this story, so his k has the personality he projected as fense Secretary: cool, stiff, and technocratic. His long silence, he says, stemmed from fear that anything he said "might appear self-serving, defensive, or vindictive." So why does he speak now? The main reason "is that I have grown sick at heart witnessing the cynicism and even contempt with which so many people view our political institutions and leaders." He rightly traces some of that contempt to Vietnam, and hopes to combat it by showing that he and other officials did the wrong things—but for the right reasons.

It is hard to credit these selfless motives; *In Retrospect* seems written at least in part to answer Deborah Shapley's unflattering 1993 biography, *Promise and Power*. But for a memoir by a high government official, it is remarkably self-critical. Tracing the slide down the "slippery slope," McNamara admits he too readily swallowed assertions that given enough troops, the U.S. military could crush the communists. "I had spent 20 years as a manager identifying problems and forcing organizations—often against their will—to think deeply and realistically about alternative courses of action.... I doubt I will ever fully understand why I did not do so here."



Not surprisingly, McNamara views Vietnam in no small part as a management problem. One point he makes is that, faced with a plethora of crises—the civil rights upheavals, the Six-Day War—he and the other policy players simply didn't have enough time to fully thrash out fundamental questions about the war. Other "lessons" he cites—that cold warriors were blinded by their ideology and by the domino theory, that policymakers grossly misjudged the Vietnamese, and that they should have reversed course when the Saigon regime's fecklessness became obvious—are hardly fresh, having already been drawn by a generation of scholars.

Still, it is good to have McNamara himself weigh in at last on this side of a still-raging debate over the meaning of the war. He demolishes the notion that the great mistake lay in not "letting our boys win," and refutes the notion, maintained by other geopolitical Big Thinkers, that by taking a stand in Vietnam, Washington stopped communism from spreading throughout Southeast Asia.

McNamara, however, still displays one blind spot typical of most Americans writing about the war: The Vietnamese are virtually absent. For example, he talks of South Vietnam being invaded by North Vietnam as though the two had forever been separate countries, when in fact they had been divided only since 1954. And in the coda to his book, he writes: "By the time the United States finally left South Vietnam in 1973, we had lost over 58,000 men and women; our economy had been damaged by years of heavy and improperly financed war spending; and the political unity of our society had been shattered, not to be restored for decades. Were such high costs justified?"

The paragraph is breathtaking in its Ameri-centrism. Vietnam, a small country, lost an estimated 3 million dead in the war, 50 times the U.S. losses, and its society was "shattered" to a degree that makes America's dislocations look puny. To omit such facts from any tally of the "costs" bespeaks an indifference closely related to the way the war was prosecuted. The central reason for the Vietnam disaster was America's ignorance of the politics and culture of an Asian peasant society, and that ignorance stemmed largely from not giving a damn. But Robert McNamara still doesn't seem to get it.

BY HARRY MAURER

Deputy Copy Chief Maurer is the author of Strange Ground: Americans in Vietnam, 1945-75.

HE VIETNAMESE ARE LARGELY ABSENT—TYPICAL OF MOST AMERICAN WRITING ON THE WAR

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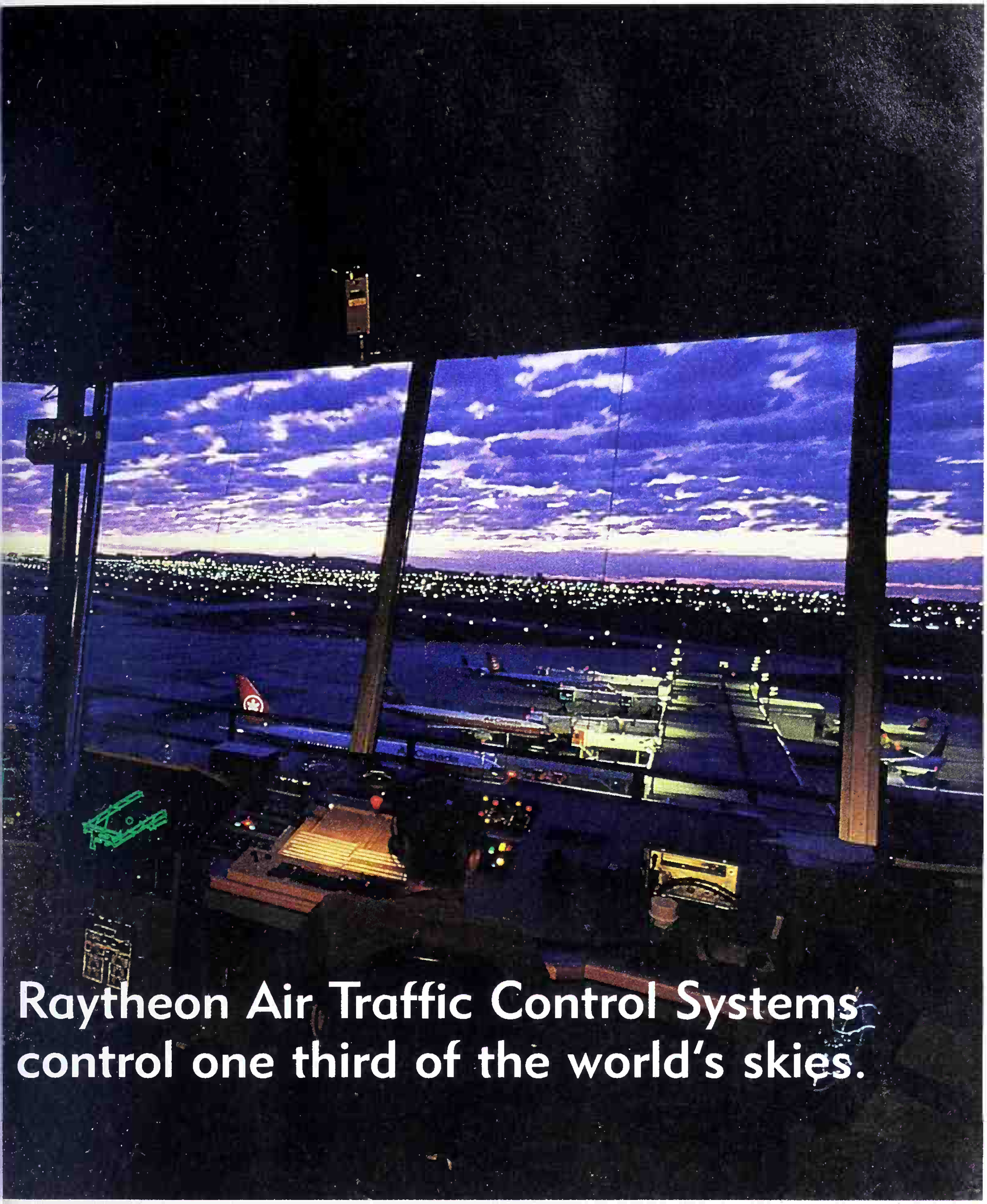
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Books

THE BUSINESS WEEK BEST-SELLER LIST

The enduring power of a good yarn—and of the Internal Revenue Service—make an impact on this month's BUSINESS WEEK Best-Seller List.

The New Rules uses the life stories of 1974 Harvard University B-school grads to prove that small business is where the action is, while *The Wealthy Barber*, in print since 1991, imparts financial-planning advice in the form of a fable. These titles join ongoing best-sellers *The Beardstown Ladies' Common-Sense Investment Guide*, *Zapp!*, and *The Goal*, all of which employ storytelling to make their diverse points.

Meanwhile, the ides of April weighed heavily on the minds of paperback book buyers, as witnessed by three titles, including newcomer *What the IRS Doesn't Want You To Know*. It's too late for this year, but these books offer basic advice on how to wrestle the taxm

Rather not wrestle? Then maybe long-running negotiations how-to, (*ting to Yes*, is for you.

And who says business has no sc Not David Whyte, the poet whose 1 book, *The Heart Aroused*, promise means of transforming work into spir al nourishment. And Laurie Beth Jon *Jesus CEO* offers inspiration fron great "turnaround specialist."

HARDCOVER

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3 **FIRST THINGS FIRST** by Stephen R. Covey, A. Roger Merrill, and Rebecca R. Merrill (Simon & Schuster • $23) *Managing your time by balancing your life.*

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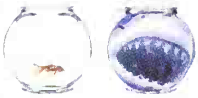

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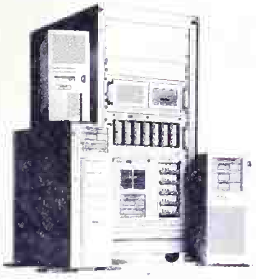

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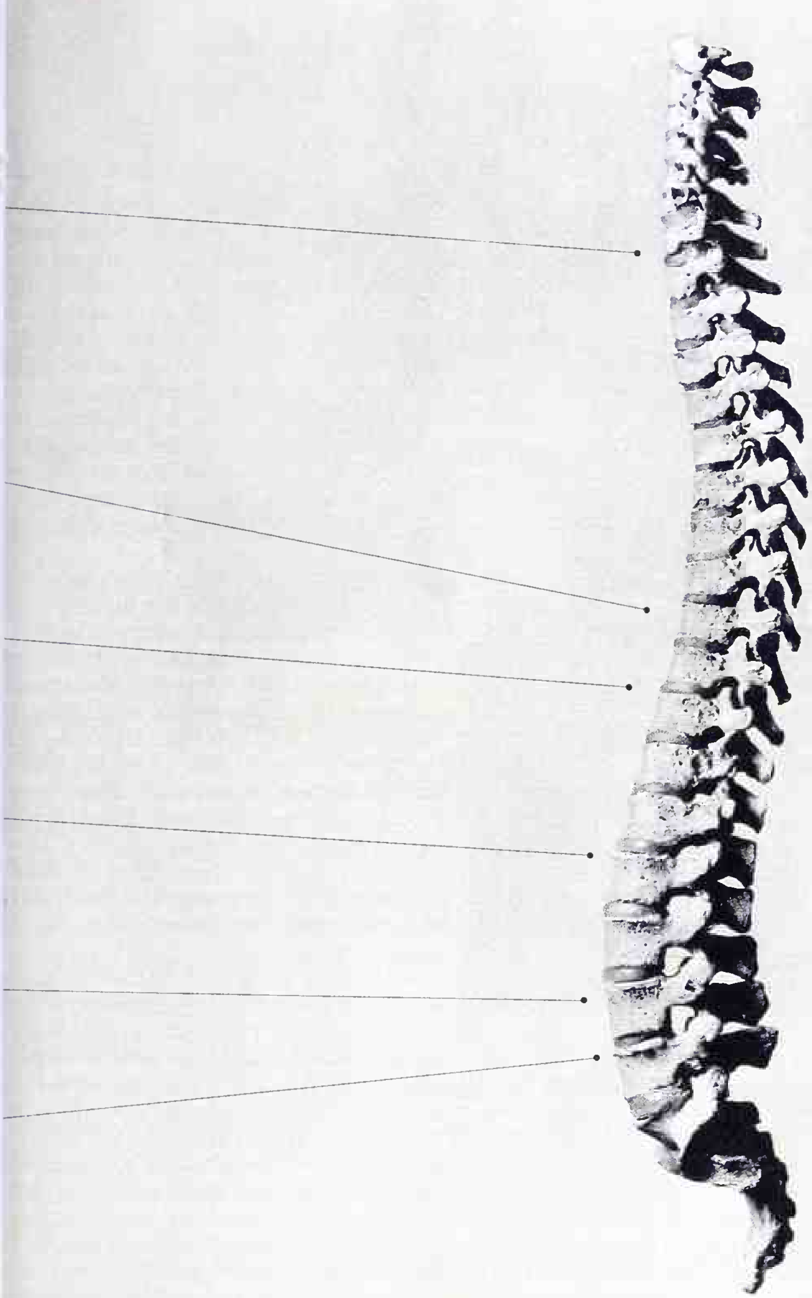

Fig. 1 Backbone

fitable business demands: keep running. Compaq's CD-based SmartStart ensures a smooth, integrated installation, and r Insight Manager constantly monitors for potential problems—which, if encountered, are covered by the Compaq e-Failure Warranty. For more information, call 1-800-853-9518 or visit our Web site at ww.compaq.com. We can help you get the performance you need. As well as the support.

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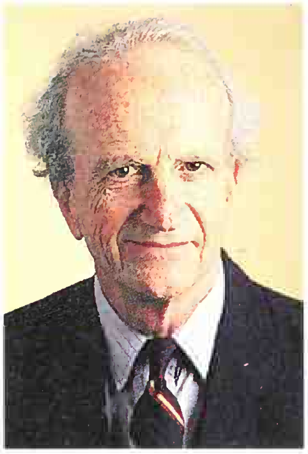
BY GARY S. BECKER

THE BEST REASON TO GET PEOPLE OFF THE DOLE



INITIATIVE: Free markets foster thrift, self-reliance, and other virtues, while programs such as welfare promote the wrong values

Economic systems that rely on private behavior and competitive markets are more efficient than those with extensive government control. However, the effects of a free-market system on self-reliance, initiative, and other virtues may be of even greater importance in the long run.

That's why economists and many other defenders of a free-market system in the 19th century often emphasized the system's effect on values rather than on efficiency. Alexis de Tocqueville, after a long visit to the U. S., observed in his remarkable study *Democracy in America* that "the principle of self-interest . . . disciplines a number of persons in habits of regularity, temperance, moderation, foresight, self-command; and if it does not lead men straight to virtue by the will, it gradually draws them in that direction by their habits."

These insights on the relationship between self-reliance and good habits should help guide the reform of public programs that corrupt the values of their participants. The welfare system is a good example, because leaders of both political parties agree it is not working well and needs to be changed. Although many families on welfare get off the rolls within a year, about 40% continue to receive benefits for longer than two years, becoming more and more dependent on government support.

People generally become thriftier and more self-reliant and develop other good habits when they are forced to make decisions and provide for themselves. But they lose the habits necessary to function well on their own—habits as simple as getting to work on time—when the government continues to support them. The importance of habits is revealed by the difficulties older workers in the formerly communist nations have encountered in adjusting to the different behavior needed to function in a free-market system.

TOO MUCH TIME? Many families appear to recognize the harmful consequences of becoming part of the welfare system: Several studies show that one of every four families eligible for welfare doesn't participate in the system. I believe the recently passed House welfare bill should have more sharply limited the length of time families can collect benefits. The present bill allows a family to be on the rolls for up to five years. Fortunately,
many states will use the block grants t
bill provides to impose lower time limits.

President Clinton has threatened to v
the House bill because it will follow the
ample set by a few states of denying a
tional cash benefits to mothers already
ceiving welfare when they have childr
born out of wedlock. The President and o
er critics claim that such provisions pun
children in poor and broken families for th
parents' mistakes since the parents wo
not have enough resources without gove
ment assistance to provide adequately
their children.

CORRUPTION. The effect of welfare refo
on children should have the highest prior
but these critics fail to appreciate how t
present system corrupts the values tra
mitted to children. Changing the system
increase the responsibility and initiative
poor parents will help their children—ever
the parents receive much less financial s
port from the government. Children use th
parents as role models and absorb their p
ents' values. The values acquired by ch
dren have a much larger effect on their e
ployment, education, and other achieveme
as adults than the amount of money th
parents have.

Although I have used welfare to illustr
the harmful effects of government progra
on the values of participants, programs t
do not cater to the poor often also sap t
sense of responsibility and other good valu
of participants. Examples include affirm
tive-action initiatives that help individu
get ahead not through their own accompli
ments but because they belong to favor
groups, aid to small and large business
that subsidizes their profits and insures th
against losses, and regulations that prot
companies against competition. Social Sec
ity is another example, because it encour
es many families to count on the gover
ment to provide their retirement inco
rather than saving for their old age wh
they are working—hence discouraging p
vate savings, some studies show.

Voter pressure is forcing state legislatu
as well as Congress to require evidence th
the benefits of government programs and r
ulations tend to exceed their costs. Those c
culations must take into account their effe
on initiative, responsibility, and other essent
values of a good society.

MICHAEL L. ABRAMSON

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

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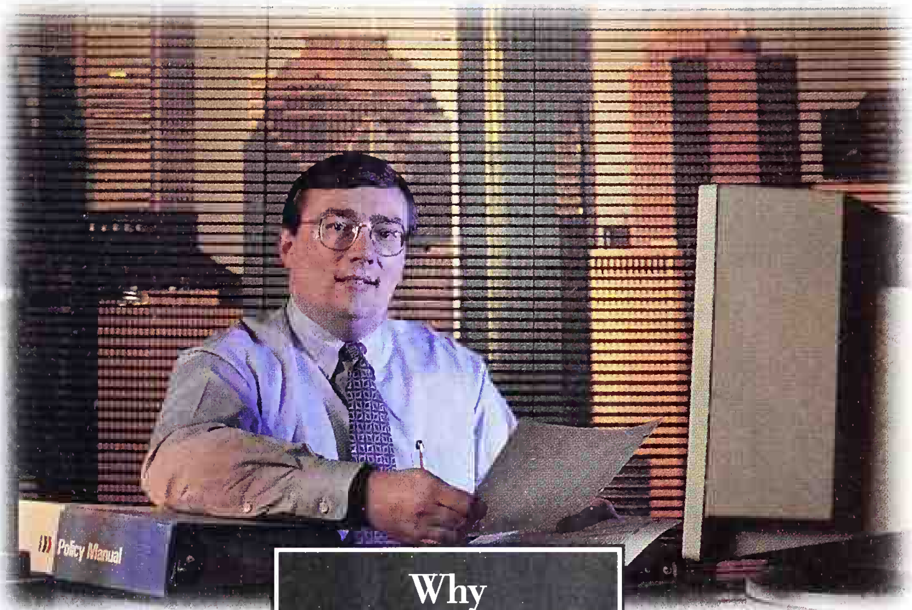

Why Chevron U.S.A. Production Company Relies on the SAS System

Chevron

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The Means to Make Better Decisions

Providing the means to deliver accurate and timely information to improve work processes and make better business decisions is the job of George Alameda, Chevron U.S.A. Production Company's Manager of Information Technology.

The company is using the SAS System to help with enterprise-wide information delivery. "Our mission is to make financial, operational, and reservoir data available in an easy-to-use format to all the asset teams at work in CUSA Production Co.," says Alameda. "We've found the SAS System is a superior solution for analyzing data, turning data into useful metrics, and guiding our cross-functional teams toward improved work processes."

One team, in CUSA Production's Western Business Unit, is tracking the profitability of individual wells. "It's a tremendously difficult task to optimize our field operations for maximum profitability," says Alameda. "With the SAS System, we can integrate large amounts of data and build a picture to compare one field against another and challenge our asset teams to identify and share best operating practices."

Reaching for the Best

Alameda looks forward to extending the use of the metrics and performance monitoring data to employees trying to improve their work processes. He admits his vision is far reaching, but so is the SAS System. "Our challenge is to be better than the best," he concludes, "and the SAS System is helping us reach that goal."

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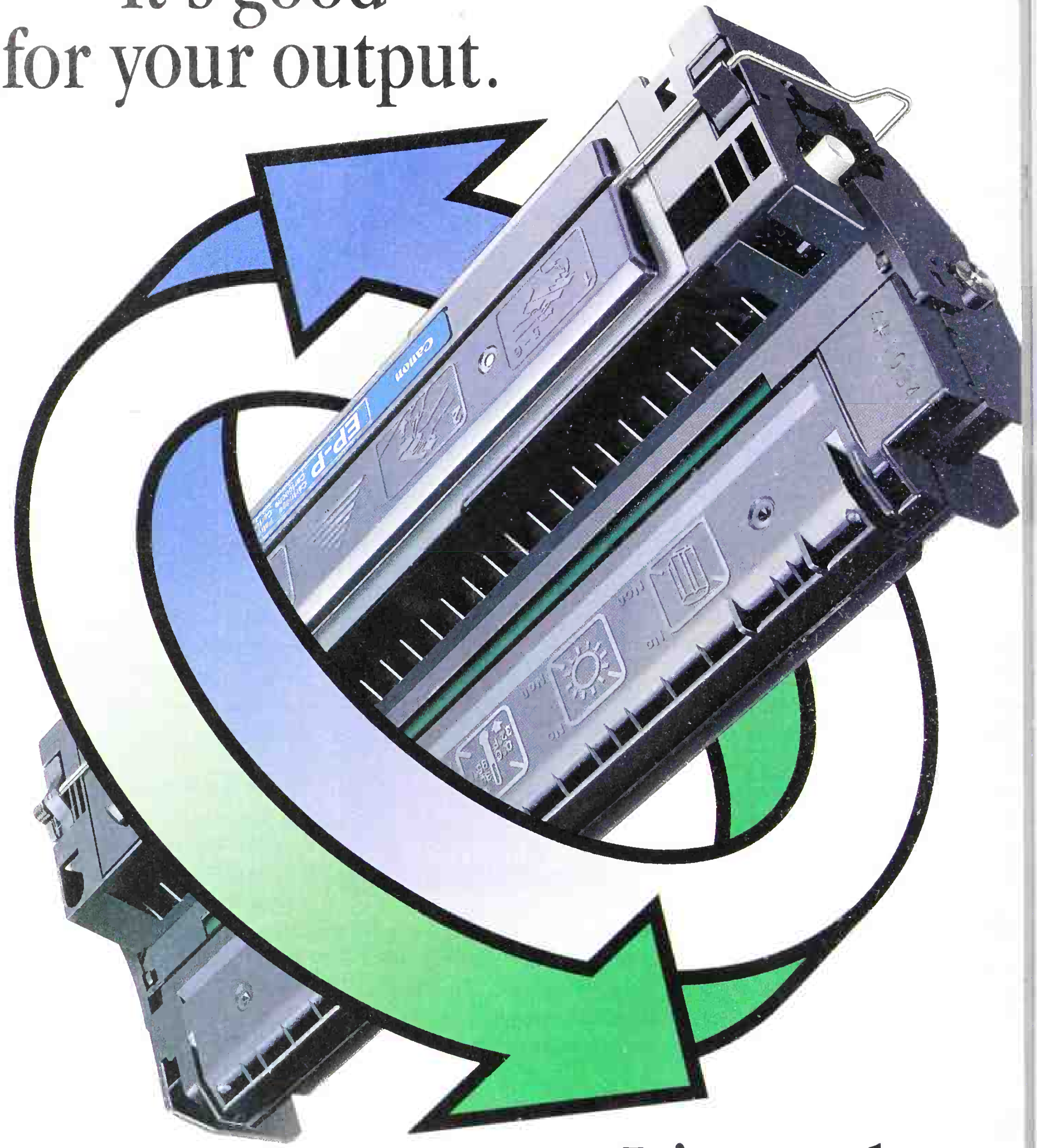

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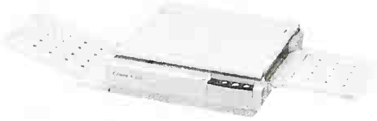
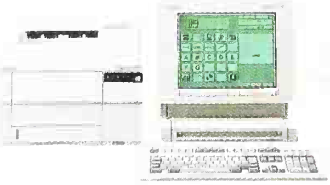


Personal Copier PC320



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Fax Laser Class 5000

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Economic Trends

BY GENE KORETZ

PRICE PRESSURES IN THE PIPELINE?

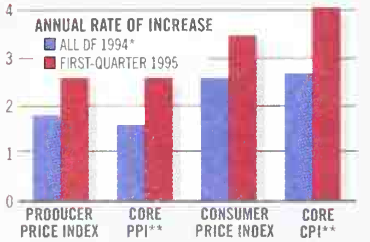
If you look hard, you can find them

Judging by the U.S. bond market, inflation seems to be yesterday's nightmare. As demonstrated by March's subdued readings for the consumer and producer price indexes, prices have remained remarkably restrained after four full years of expansion. Continued price moderation, in fact, has led some economists to predict that the Federal Reserve's next move will be to ease monetary policy.

Charles Lieberman of Chemical Securities Inc. is unconvinced, however. He points out that the PPI for finished goods has risen at a 2.6% annual rate so far in 1995, vs. 1.8% in the year ended in December (chart). The figures for the core PPI (which excludes food and energy prices) are 2.6% and 1.6%, respectively. And producer prices of crude and intermediate goods over the past 12 months are up 16.4% and 7.1%.

Latent inflationary pressures are also apparent in consumer prices and in tabs for imported goods. So far this year, the consumer price index and the "core" CPI have risen at 3.5% and 4.1% annual rates, compared with 2.6% and 2.7% in 1994. And nonoil import prices, at last count, were up 4.4% in the past 12 months, compared with 1.8% prior to that.

IS INFLATION BREWING?



▲PERCENT

*12 MONTHS ENDING IN DECEMBER
**INDEX LESS FOOD AND ENERGY PRICES

DATA: BUREAU OF LABOR STATISTICS

Labor costs are also stirring. While wages have moved moderately higher over the past year, Lieberman notes that unit labor costs have jumped from a 0.5% rise in the year ended in March, 1994, to 2% over the past year. He expects them to continue to climb as productivity gains slacken in line with the aging expansion.

If the economy slows sharply, such pressures may remain subdued. But Lieberman thinks consumption could bounce back in the months ahead. If that happens, he warns, "inflationary pressures and wage rates could suddenly start to accelerate, prompting the Fed to tighten money one more time."

ALASKA'S LOST OPPORTUNITY

Budget woes might have vanished

Lady luck has not given many states the chance to virtually eliminate the tax burdens of their residents. But that, as Stephen L. Jackstadt of the University of Alaska and Dwight R. Lee of the University of Georgia argue in the current issue of *Society*, is exactly the opportunity Alaska has thrown away.

In 1967, the year before oil was discovered at Prudhoe Bay, real per capita state spending in Alaska, adjusted for its higher cost of living, was already 1.6 times the national average. As oil revenues climbed, however, the state slashed tax rates for its residents and accelerated spending, boosting outlays twentyfold from 1981 through 1988. As a result, Alaska has the lowest state personal tax burden and highest per capita spending in the nation.

Recognizing that its oil wealth is a temporary windfall, the state did put some money away in a Permanent Fund, whose investments totaled $15.6 billion at the end of 1993. However, most of the fund's earnings after inflation are paid out to Alaska's citizens via annual dividends ($949 per person in 1993).

Meanwhile, say Jackstadt and Lee, much of the oil take has been wasted on questionable spending programs. As examples, they list $70 million in unpaid loans to would-be Alaskan barley and dairy farmers, European field trips for high school students, a $70 million performing arts center in Anchorage that loses over $1 million annually, and hundreds of millions of dollars lost in loans for businesses based on renewable resources, including a project to develop dog-powered washing machines.

The long-run economic reality for Alaska is that its oil reserves are being depleted: Output is expected to decline 50% by 2004. A University of Alaska study says the state is spending $1.2 billion a year more than can be sustained in the long run.

It didn't have to be. Jackstadt and Lee calculate that if the state had allowed real per capita spending to g at the U.S. average rate over the 25 years and earned an average rate of return of 5.15% on its accumu ed excess revenues, it would have h jackpot of $75 billion at the end of 1 That's enough to earn about $1 bi more in annual interest than the s spent in 1993.

Thus, Alaska has lost a chance perpetual fiscal health. Looking ah the economists see hard times for A kans as oil revenues continue to dry

SLIPPERY SLOPE FOR RUSSIAN OIL

Poor profits and falling producti

In the late 1980s, Russia was world's largest oil producer. Today, No. 3, and the drop in output that celerated after the Soviet Uni breakup continues. Despite its substan potential, says Adam Sieminski of N West Washington Analysis, Russia's industry is unlikely to recover soon.

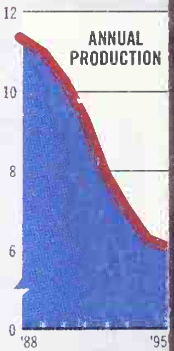
The problem is poor profitability. W oil exports provide hard currency, the dustry is heavily taxed, and its dome prices are still held below the costs production. Meanwhile, efforts to exp output and exports are hampered by reaucracy and inadequate investment

Since 1991, Russian oil output has en by about a third, and the World B estimates that the industry would h to invest $8 billion a year for the n six years to get back to 1991 output els. In 1993, it was able to shell out c $2 billion to $3 billion.

The irony is that Russia faces oversupply of oil at home, even as net exports have continued to decline. With its economy on the rocks, domestic consumption has fallen by about 30% since 1991. To raise profits, the industry needs to increase exports, but that requires more investment in infrastructure.

At best, says Sieminski, Russia is likely to experience "only a grad and moderate rise in oil production a exports through the rest of the decad

RUSSIA'S WANIN OIL OUTPUT

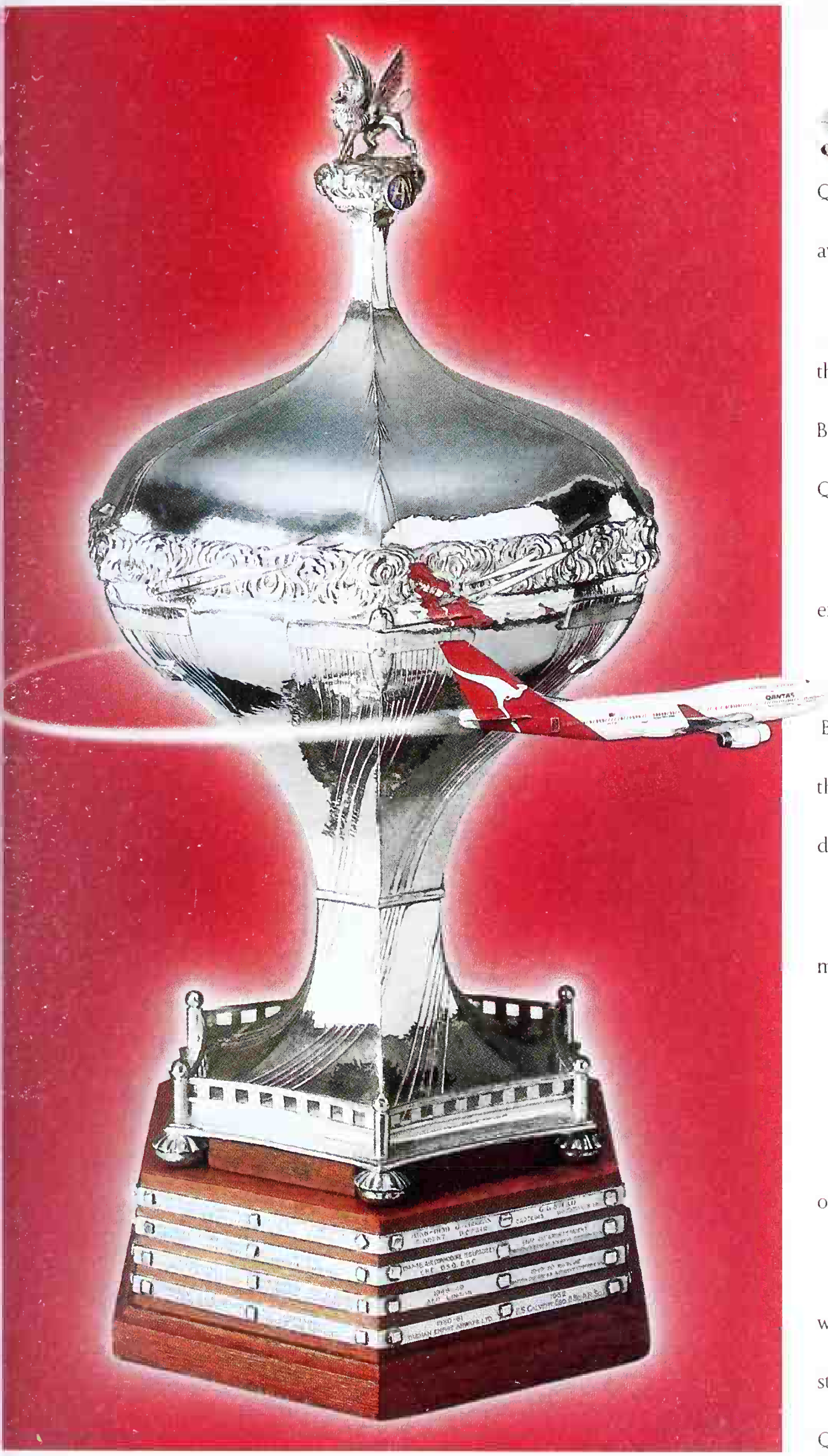


▲MILLION BARRELS PER DAY

DATA: NATWEST WASHINGTON ANALYSIS

ERIC HOFFMANN

No other airline has landed this twice.



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Erv Barnes (left),
Director of Information
Technology, and
Ed Herrelko (right),
xecutive Vice President
of Group Sales, at
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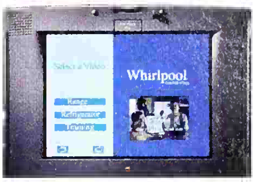
–Ed Herrelko



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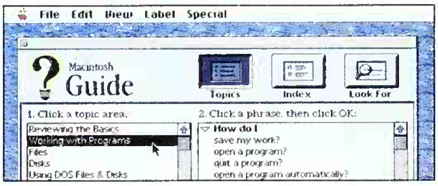

1. Click a topic area.

Reviewing the Basics
Working with Programs
Files
Disks
Using DOS Files & Disks

2. Click a phrase, then click OK:

How do I
save my work?
open a program?
quit a program?
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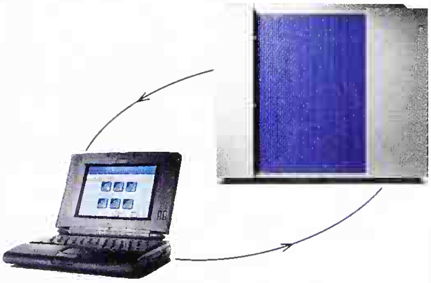

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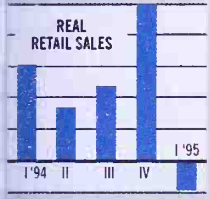
JAMES C. COOPER & KATHLEEN MADIGAN

'HIS SLOWDOWN
S CAUSING SOME WHIPLASH

U.S. ECONOMY The past few weeks have seen scattered hints that the econ-y is cooling off. Now, the signs are clearer: This wdown is for real.

Vhen the Commerce Dept. takes a look back at t-quarter economic growth on Apr. 28, the numbers l have a lot to say about the rest of 1995 as well. at's because last quarter's real gross domestic prod- got most of its strength from surging invento-s and only a smidgen of growth from demand. That nbination is sure to curb growth in the second arter and perhaps beyond.


CONSUMER DEMAND SLOWS SHARPLY

QUARTERLY PERCENT CHANGE, ANNUAL RATE
ATA: COMMERCE DEPT., BUSINESS WEEK

Here's what to expect: a steep falloff in demand growth last quarter led by a sharply slower pace of consumer spending, a decline in housing construction, and a huge widening of the trade gap. That weakness swamped the continued strength in business investment in equipment and buildings.

On the plus side for GDP is uge buildup in nonfarm inventories. Like the previ-s three quarters, inventories accumulated at one of fastest paces in the postwar era. Unlike in 1994, ough, the buildup last quarter appears to have been intentional.

Add up the numbers, and first-quarter GDP growth ks to have been about 2.5%, half the fourth quarter's % rate. How much the reported number varies from t pace will depend largely on Commerce's assump-ns for unknown March data, especially for inventories l foreign trade.

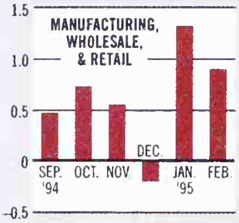
E FEDERAL RESERVE should be especially pleased th the languid growth rate of demand, which should ne in well below 2%. More important to policymak-, the new softness in consumer demand is not just nporary. Purchases of autos, home-related durable ods, and other items sensitive to interest rates are ding the pullback (chart). And new-home construction March dropped to the lowest level in two years.

This pattern suggests that the Federal Reserve's e hikes are responsible for the indifferent buying— t delayed tax refunds, the "O.J. effect" (wherein ople would rather watch the trial than shop), or any ner transitory factor. So the central bank is sure to ld rates steady at its next policy meeting, on May 23, and possibly even for the remainder of the year.

The size of the recent drop-off in retail sales shows a seismic shift in spending behavior. Retailers eked out a 0.2% gain in March receipts. But that followed a 1% drop in February, and March buying was no higher than it was five months ago. For the quarter, real retail sales fell at an estimated annual rate of 1.9%, the first quarterly decline in three years.

The jury is still out on April buying. A late Easter hurt sales in March, but it should help them this month. The weekly *Johnson Redbook Report* showed that department and chain-store sales for the first two weeks of April were 0.3% above their March average. Retailers have described sales in the first two weeks of the month as "on or below plan." Car sales in early April look weak compared with a year ago.

However, in the first quarter, at least, it's not just domestic demand that is downshifting. Export growth also slowed, partly due to the Mexican meltdown. Shipments to Mexico plunged in both January and February. March exports were likely down as well.


A SUDDEN PILEUP OF INVENTORIES

▲MONTHLY PERCENT CHANGE
DATA: COMMERCE DEPT.

Overall exports rebounded in February, as aircraft shipments recovered from a January decline. Exports of goods and services rose 2.4%, but that followed January's 4.2% drop. So far in the quarter, shipments abroad are slightly below the fourth-quarter level.

The February export gain, plus a 2% decline in imports, narrowed the month's trade deficit by $2.9 billion, to $9 billion. The import drop is another sign that domestic demand is waning.

The smaller-than-expected gap should have bolstered the U.S. dollar, especially since the deficit with Japan narrowed for the fourth consecutive month. However, the buck continued to get bashed.

Even with the February improvement, though, foreign trade was a big drag on first-quarter GDP growth. Depending upon Commerce's assumptions for March, net exports appear to have subtracted about 1.5 percentage points from growth.

THE DROP-OFF in demand has come so swiftly that businesses were caught off guard. As a result, inventories piled up across all sectors in the first two months of the first quarter (chart). Stock levels of manufacturers, wholesalers, and retailers rose 0.9% in February, on

ERIC HOFFMANN/BW

the heels of an even steeper 1.3% jump in January. That was the largest two-month increase in inventories in more than a decade.

Most of last year's accumulation occurred in wholesale and retail trade in support of strong consumer spending. Now, however, stock levels are starting to look more burdensome, meaning that production and worktime will have to be cut.

Manufacturers have already started to respond. Factory inventories posted unusually large increases in January and February, a sign that retail-demand weakness is working its way back to the factory floor. The accumulation has been especially noticeable in factory inventories of finished goods and work-in-process.

NOT SURPRISINGLY, industrial production fell 0.3% in March. As a result of weather patterns, a large drop in utility output, following a big gain in February, exaggerated the March decline. However, manufacturing output alone fell 0.1% for the second consecutive month, something that hasn't happened in more than three years. Autos, trucks, and housing-related durable goods led the declines. Even business-equipment production slowed, although the high-tech sector of equipment remains in high gear.

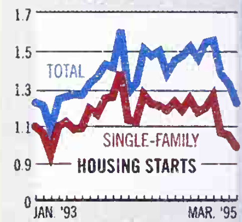
Excessive inventories will slow production lines in the second quarter as well. Although factory output still grew at a solid 6% for the entire first quarter, down only a bit from 7.7% in the fourth, the recent declin
will result in a sharply lower pace of second-quar
output. And without a pickup in demand, that outp
slowdown will extend into the third quarter.

Output of construction supplies slowed sharply l
quarter, and it's little wonder. Housing starts plung
7.9% in March, to an annual rate of 1.21 million (cha
That drop was the third in a row, and the single-fa
ly sector has led the decline. The three-month fall is t
largest since the 1981-82 recession.

With industrial output slowing, capacity pressures and supply bottlenecks that usually push up prices are also easing. Operating rates fell in March for the second consecutive month, to 84.9%, the lowest rate since November. Already, inflation pressures from crude materials are easing: Industrial commodity prices are down from their recent peaks.

A handful of economists still believe that the emer
ing slowdown is only temporary. They argue that b
cause of continued tightness in the markets for both
bor and goods, building price pressures will cause t
Fed to hike rates further. But the data now on t
books—and yet to come—just don't support that notio

FED RATE HIKES HAMMER HOUSING



▲MILLIONS, AT ANNUAL RATES

DATA: COMMERCE DEPT.

ITALY

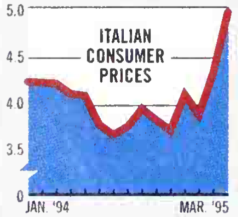
INFLATION IS SIMMERING AGAIN

After four years of improvement, inflation once again clouds the outlook in Italy. A growing economy, higher taxes, and a slumping currency have fueled worries that inflation in 1995 will top 5% for the first time since 1991.

Clearly, the export-led recovery remains in place. Although the real gross domestic product was flat in 1994's fourth quarter compared with the third, for the year the economy grew 2.2%, after dropping 0.7% in 1993.

Exports rose a strong 10.3% in the year ended in the fourth quarter. The data for 1995 look promising also: January and February exports shipped outside of the European Union are up 20.3% from a year ago. Italy's industry is benefiting: Production rose 0.5% in February, to stand 7.6% above year-ago levels. Exports should lead the healthy 3% GDP growth expected in 1995.

AN OMINOUS PICKUP



▲PERCENT CHANGE FROM A YEAR AGO

DATA: DRI/McGRAW-HILL, BUSINESS WEEK

Consumer spending is where the Italian economy needs a boost. Spending grew only 1.6% in 1994, less than expected. Weak wage growth and increased taxes are squeezing incomes. Plus, unemployment remains high, especially in the impoverished south.

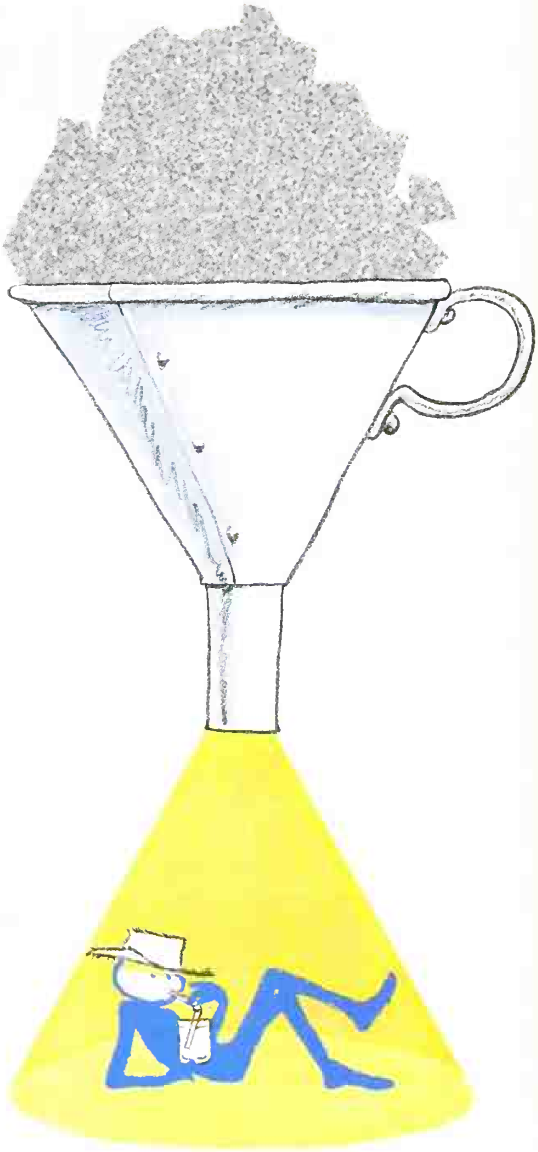
With the economy on the mend, however, inflation is picking up. Consumer prices in March jumped 4.9% from a year ago, the fastest pace in almost 2½ years (chart). Rome's National Institute of Statistics said indirect taxes initiated back in 1992 added to the broad increase in prices last month, and it forecast that new taxes passed in February could add an additional 0.72% to the 1995 rate of inflation.

The lira will also exert price pressures. The currency has fallen 16% against the mark since Jan. 1. In response, the Bank of Italy lifted official short-term rates by three-quarters of a percentage point on Feb. 20. Since then, it has nudged up market rates further, leading Italian banks to raise their prime rate on Apr. 13, to 10.75% from 10%. However, higher taxes and a falling currency are a volatile mix that can only hurt the inflation outlook and lead to even more rate hikes in 1995.

ERIC HOFFMANN/BW

hat if someone found a way to **convert** some of

chemical waste into **energy?**



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DEALS

AN OLD-FASHIONED FEEDING FRENZY

Is it the 1980s redux? Not quite…

Shades of the 1980s? In the wake of Kirk Kerkorian and Lee Iacocca's hostile $20.5 billion bid for Chrysler, a lot of analysts are wondering: Is the takeover party getting out of control?

There's little doubt that corporate buyouts are booming—or that acquisition prices are rising fast. U. S. merger volume in 1995's first quarter totaled $73.2 billion, up 36% from the year before—the highest first-quarter figure since 1989, according to Securities Data Co.

The second quarter shows no signs of a letup, either: In recent weeks, Seagram said it will spend $5.7 billion acquiring 80% of MCA, and Coram Healthcare struck a merger deal with Lincare Holdings for about $1 billion. At Chase Manhattan Bank, mutual-fund manager Michael Price is pressing management to get the stock up, and NationsBank says it might be interested in taking Chase over. (Chase says it can maximize shareholder value on its own.) Plenty of other companies could be vulnerable, too. At Scott Paper Co.'s annual meeting on Apr. 18, Chief Executive Albert J. Dunlap pretty much summed up the atmosphere—and fueled rumors that the paper giant is on the block—saying: "Everything but your family and your dogs in this world is for sale at the right price. And anybody who denies that is a hypocrite."

DOLLAR DAYS. Sounds familiar, right? Yet unlike the merger frenzy of the late 1980s, there are plenty of solid business reasons for the latest upswing in deals. The most important: CEOs, caught in a Darwinian struggle for survival in a world of international competition, deregulation, and technological upheaval, are snatching up competitors at home and abroad to expand their global market share and improve earnings. Says Allen L. Sinai, Lehman Brothers Inc.'s chief economist: "We are on the cusp of a major takeover boom, and it will be global in scope."

In the U. S., the dollar's steep fall adds a further incentive for corporate combinations. For German and Japanese buyers in particular, U. S. assets now

Prime Takeover Bait?

Some companies Wall Street thinks could be ripe for buyouts, based on industry trends and relatively low **price/earnings ratios**

BAYBANKS	**10.9**	The Boston-based bank is a buyout candidate for bigger institutions that want to expand.
CHASE MANHATTAN	**7.3**	Investor Michael Price thinks the No. 6 U. S. bank would be worth more broken up into pieces.
BRISTOL-MYERS SQUIBB	**17.6**	As the industry consolidates, Bristol's stock is up on expectations of a deal, possibly with a rival.
CBS	**17.0**	Ratings are off from last year, but Morgan Stanley says it's worth $80, vs. a share price of $62.

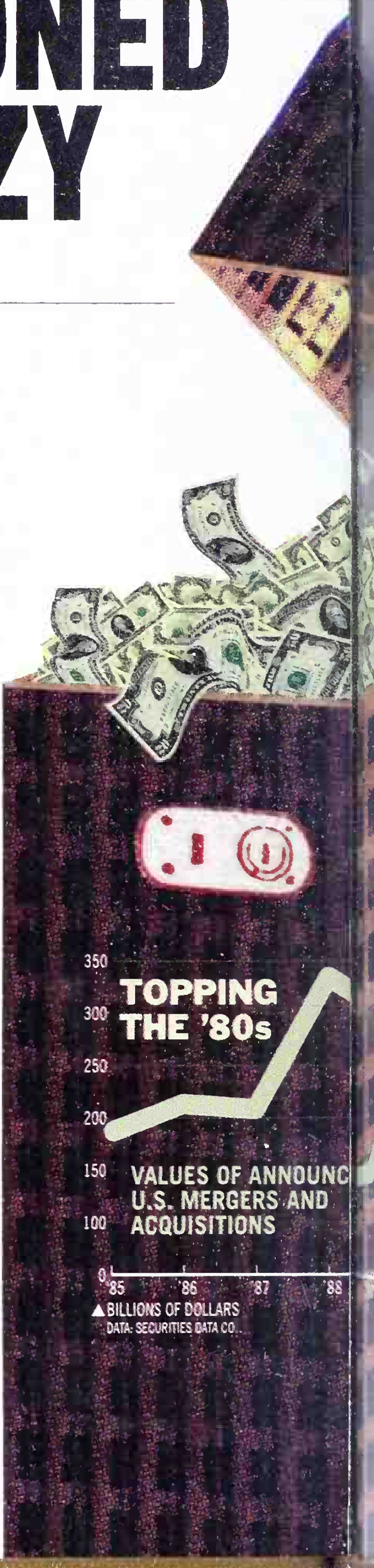
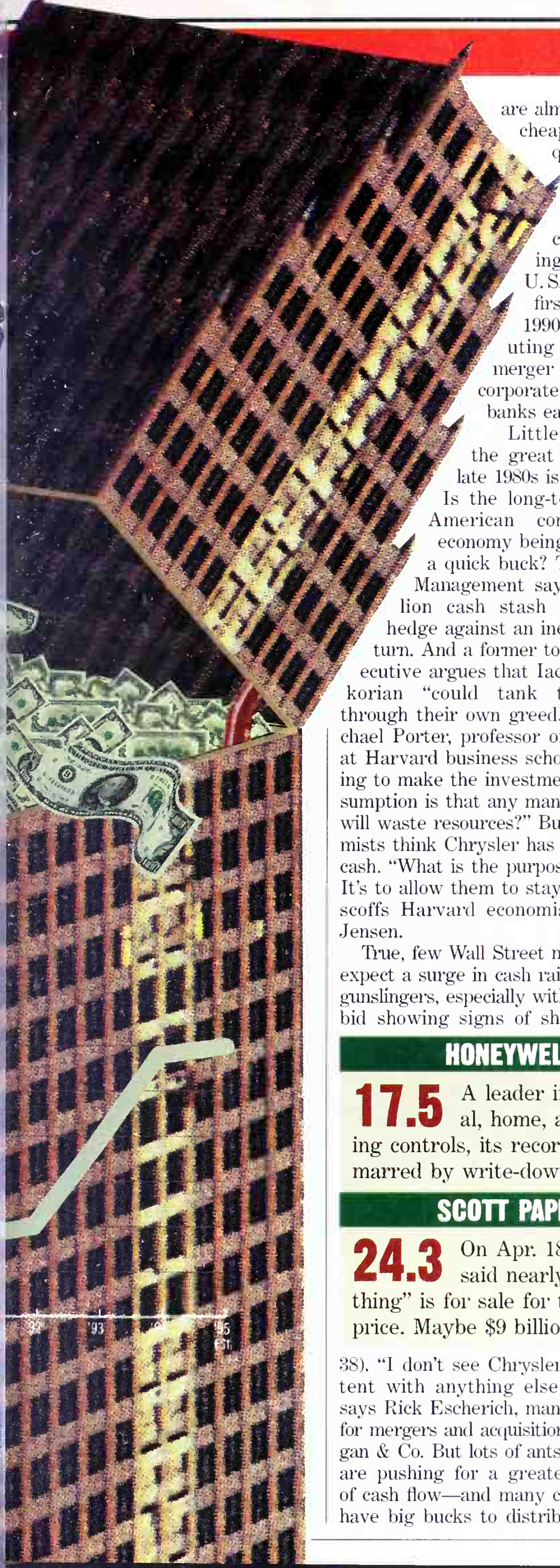


ILLUSTRATION BY [illegible] CHART BY LISA KNOUSE BRAIMAN/BW



are almost irresistibly cheap. In the first quarter, overseas companies went on a $19.3 billion corporate buying spree in the U. S., the strongest first quarter since 1990. Also contributing to America's merger wave is strong corporate cash flow and banks eager to lend.

Little wonder that the great debate of the late 1980s is being revived: Is the long-term health of American companies and economy being sacrificed for a quick buck? Take Chrysler. Management says its $7.3 billion cash stash is a prudent hedge against an inevitable downturn. And a former top Chrysler executive argues that Iacocca and Kerkorian "could tank the company through their own greed." Worries Michael Porter, professor of management at Harvard business school: "Who's going to make the investments if the presumption is that any management team will waste resources?" But many economists think Chrysler has way too much cash. "What is the purpose of the cash? It's to allow them to stay fat and lazy," scoffs Harvard economist Michael C. Jensen.

True, few Wall Street merger mavens expect a surge in cash raids by financial gunslingers, especially with the Chrysler bid showing signs of shakiness (page 38). "I don't see Chrysler being consistent with anything else we've seen," says Rick Escherich, managing director for mergers and acquisitions at J. P. Morgan & Co. But lots of antsy shareholders are pushing for a greater distribution of cash flow—and many companies now have big bucks to distribute. The dividend payout ratio for Standard & Poor's 500 companies is "among the lowest in history," says Charles Clough, chief investment strategist at Merrill Lynch & Co. And during the past three years, corporate cash flows have risen by around 29%, to over $480 billion, says Mark Zandi, an economist at Regional Financial Associates Inc.

HONEYWELL

17.5 A leader in industrial, home, and building controls, its record has been marred by write-downs.

SCOTT PAPER

24.3 On Apr. 18, its CEO said nearly "everything" is for sale for the right price. Maybe $9 billion?

In the rapidly consolidating drug industry, large companies such as Warner-Lambert and Bristol-Myers Squibb are feeling the heat. Take Warner. With its stock trading at around $80 a share, it might go for more than $15 billion. Yet it still could be vulnerable. Perhaps to help forestall a hostile bid, Warner CEO Melvin R. Goodes and his top aides assured analysts on Apr. 13 that they plan to sell some $200 million worth of assets in the next two years.

With other industries also consolidating, plenty of other companies may be vulnerable. Some analysts think that Sundstrand, a smallish military and industrial supplier, could be a breakup candidate. Even if Chase resists pressures to do a deal, smaller banks, such as Boston's BayBanks, clearly could be gobbled up. Multimedia also is hot, as software, telecommunications, and other companies jockey for position.

GLOBAL TREMORS. Feeling similar pressures, European companies now are avid shoppers in the world's largest market. The fall of the dollar aside, many Eurogiants have strong balance sheets to finance acquisitions. Among their bigger U. S. deals so far this year: Germany's Hoechst is trying to close its purchase of Marion Merrell Dow for $7.1 billion, and Italy's Luxottica will pay some $1.3 billion for U. S. Shoe.

SUNDSTRAND

18.4 This small player is likely to get caught up in defense industry consolidation, Wall Street thinks.

WARNER-LAMBERT

15.9 A drugmaker in need of restructuring, Warner may attract a big European buyer eager for U.S. share.

The merger wave, however, is not just an American phenomenon. Worldwide merger volume, including the U. S., hit $135.2 billion in the first quarter, 26% more than in last year's first quarter, Securities Data says. Japanese companies may spend more time undoing past mistakes than launching new bids, as Matsushita is doing by selling MCA to Seagram (page 37). But they're quite actively striking alliances in Asia.

Some huge deals, moreover, have occurred or are brewing in Europe. Britain's Glaxo Holdings PLC acquired Wellcome for $14.3 billion, and Hanson PLC is strongly rumored to be gunning for British Gas PLC, the world's largest natural-gas company. PolyGram, the Anglo-Dutch entertainment group, recently increased its stake in Music India, a Bombay record company, to 51%. Germany's Siemens is sitting on some $17 billion in cash. Says CEO Heinrich von Pierer: "This is a time of consolidation. I prefer alliances, but other acquisitions may come if we need to fill in any gaps in our core businesses."

Translation: The takeover wave may hit hardest in the U.S., where sha holders wield the most power. Bu an era of globalization, compan everywhere are repeating the mar of the rambunctious '80s: Acquire be acquired.

By Christopher Farrell, with Phi L. Zweig, in New York, Joseph Webe Philadelphia, Paula Dwyer in Lond and bureau reports

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COMMENTARY

By Michael J. Mandel

CAN U.S. COMPANIES AFFORD TO TAKE THE LONG VIEW?

It has been a virtuoso performance by Japanese manufacturers. Faced with economic turmoil at home and a soaring yen abroad, Japan's exporters have followed the same long-haul strategy that worked in the past: Hold down prices to build demand, then drive down costs enough to make a profit. As a result, even as the yen has jumped some 50% in the past five years, the price of Japanese imports to the U.S. has risen only 15%, keeping Japanese cars, consumer electronics, and high-tech goods competitive.

The superiority of this market-share strategy has been proven by the global success of Japanese and East Asian manufacturers—in industries from steel to memory chips. By comparison, experience has shown that a company that earns big profits today by boosting prices runs the risk of becoming less hungry to cut costs—a potentially deadly failing over the long run.

***KEIRETSU* CAPITAL.** But Chrysler Corp.'s experience shows how difficult it is for even well-run U.S. companies to take the long view. Having rescued itself from the scrap heap, Chrysler was attempting to behave like its Japanese competitors, socking away billions of dollars that it earmarked for developing new products. Now, Kirk Kerkorian's bid for the auto maker—even if he does not win—probably means that Chrysler will have to pay out much of its cash to shareholders.

It's not just Chrysler, either. U.S. investors do not trust most domestic manufacturers to invest their money wisely. They recall the ill-fated diversification attempts of the steel and oil companies and the billions that General Motors Corp. wasted in the 1980s. That's why a big pot of cash turns a company into a takeover target.

Shareholders of a U.S. company are unlikely to accept lower short-run profits while a company patiently builds market share. Cross-border comparisons can be misleading, but reported operating profits for Japanese manufacturers, as a percentage of sales, seem to average about 1 to 1½ points less than for comparable U.S. companies.

JAMES YANG

In part, Japanese executives can live with lower profits because they have access to cheaper capital. Japanese companies still have as big a capital-cost advantage as they did in the late 1980s. Real 10-year interest rates in Japan are about one percentage point lower than they are in the U.S., just as before. Moreover, the price-earnings ratio for the Japanese stock market remains about four times that for the U.S. market.

Another reason Japanese companies feel less need to focus on short-term profits: A big chunk of their shares often is held by related corporations. These ties help companies expand market share by making borrowing easier and spreading risks. For example, Sumitomo Bank Ltd. helped fellow *keiretsu* member NEC Corp. build a strong position in integrated circuits by making loans available when a U.S. bank might have balked.

FRAGILE REVIVAL. Even without such a system of mutual support, some U.S. industries manage to be market-share-driven. Semiconductor makers learned their lesson from the 1980s and now develop new chips even as they aggressively price the old ones. U.S. airlines, too, are more focused on maintaining market share than they are on keeping up profits. As a result, they run up big losses in bad times—but they have also been forced to become the most productive carriers in the world, according to a 1992 McKinsey & Co. study.

As long as U.S. companies have to pay primary attention to short-run concerns, the U.S. manufacturing revival will be fragile. The Chrysler bid shows that prudent planning for the longer haul just may be too dangerous.

Mandel writes about economics from New York.

ASH IS KING OR CORPORATE JAPAN

d companies keep it under lock and key–unlike Chrysler

TOYOTA
TOYC

DEL OF EFFICIENCY: *Toyota can afford to hold on to its cash*

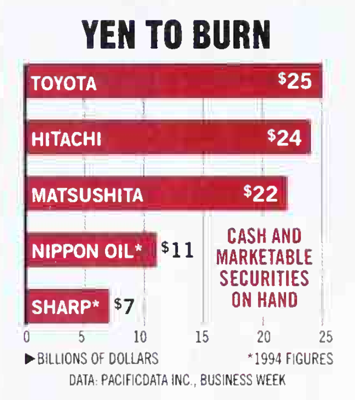
apan's corporate barons are probably bemused at Chrysler Corp.'s current predicament. Kirk Kerkori- $20.5 billion takeover gambit would n the auto maker's $7.3 billion cash erves and add $10.7 billion in new t. Such money grabs are unheard-of lubby corporate Japan—and so are shareholders bent on instant gratifi- on. Small wonder: Compared with ysler's, the huge cash hoards at Toy- Motor, Matsushita Electric Industri- ınd Hitachi are under lock and key.

nstead of rewarding stockholders ı dividends and buybacks, Japan's ıstrial giants have historically used r cash troves as war chests. Fat ı cushions have allowed exporters lash prices abroad, grabbing more ket share without worrying about its. When Japan's bubble economy ; at its airiest in the late 1980s, an's corporate leviathans gobbled up rseas assets. Indeed, part of their sent wealth comes from big depreci- n write-offs of plants and equipment ght during that investment spree. y also gambled in the stock and cur- cy markets and took some big losses rophy investments such as the Peb- Beach (Calif.) golf course.

Now, with the yen crashing through 80-to-the-dollar barrier, corporate n is staying home. Big multinationals to cut costs to offset their less-competitive exports are simply sitting on their money, keeping it in yen-denominated bonds and short-term cash accounts. Middle-tier exporters are using their cash to offset lower profit margins, so they won't have to raise prices abroad to maintain market share. Domestic companies are burning up their cash as they scramble to cope with a growing flood of cheap imports.

With Japan's recovery so fragile, corporate treasurers are uninterested in domestic expansion, and capital spending has all but dried up. The downside of sitting on all those yen is that with interest rates at record lows, conservative cash management doesn't pay very well. Companies will be lucky to earn 2% aftertax on their short-term cash. "The opportunities are limited" for effective use of free cash, says Peter Tasker, equity strategist at Kleinwort Benson.

Nevertheless, treasurers are being more cautious than usual. They're putting corporate cash into domestic bonds and currency hedging—some lucky companies have locked in futures contracts at 100 yen to the dollar. And indebted companies are paying off their loans.



DATA: PACIFICDATA INC., BUSINESS WEEK

Then there are the Japanese executives who want to keep a safety net for the future—even if it means zero profits now. Toyota Motor Corp., for instance, can afford to sit back and watch the yen keep rising. It could break even with the yen as low as 50 to the buck, figures Lehman Brothers Inc. auto analyst Koji Endo. So it isn't transferring any of its $24.6 billion in cash into profits, letting margins fall rather than raise prices and sacrifice market share. "Nobody wants to be blamed as the generation that lost the money," says Fujio Cho, a managing director at Toyota.

MULTIMEDIA MOVES. Besides wanting a buffer against yen-induced earnings declines, companies have other reasons to save up. Beginning in 1997, they'll have to use current market value to measure their pension fund investments. Corporate Japan "has a 20% hole in the pension funds" thanks to the prolonged bear market that has battered their stock holdings, figures James Capel Inc. economist Jason James.

Plus, in its emergency yen-busting package released on Apr. 14, the Finance Ministry encouraged companies to buy back their shares to help the slumping Nikkei, now off 17% on the year and 58% from its peak in 1989. Buybacks would do wonders for Japanese companies' paltry 3.5% return on equity—vs. 18.5% in the U.S.—figures Tasker.

There's no denying Japan's flagship companies still have plenty of financial brawn. Matsushita Electric Industrial Co., which recently beat a retreat from its venture into Hollywood, will pocket about $5.7 billion from the sale of MCA Inc., less any currency losses. That's on top of the roughly $22 billion it has in cash and short-term instruments. With its Panasonic and Technics consumer-electronics units under pressure from weak demand and the strong yen, Matsushita President Yoichi Morishita says the company will use the MCA proceeds "in our important multimedia" and related businesses during the next few years.

Whether Matsushita's foray into the much-hyped multimedia field will be any more successful than its fling with Hollywood is anybody's guess. But in a system that shields corporate cash from predators and virtually ignores shareholders, Japan's corporate chieftains have plenty of freedom to fail.

By Brian Bremner, with Edith Hill Updike, in Tokyo

PHOTOGRAPH BY GREG GIRARD/CONTACT, CHART BY RAY VELLA/BW

EATON: *Vowing to stay the course*

THORNS APLENTY

Finding a bank to lead a loan syndication this large may turn out to be tricky: Many top U.S. lenders, including Chemical and J.P. Morgan, already have ties to Chrysler

KERKORIAN: *Feeling the pressure*

(L TO R) PHOTOGRAPHS BY RICHARD SHEINWALD/AP/WIDE WORLD, LEE ZAICHICK/REUTERS

TAKEOVERS

THE CHRYSLER BID: ANY BACKERS OUT THERE?

The plan has few details, lots of obstacles, and little time to work

Can Kirk Kerkorian and Lee A. Iacocca come up with financing for their $20.5 billion bid to buy Chrysler Corp.? Could be doubtful. Seven days after announcing their offer, the pair still had provided virtually no details on the deal's funding, even though they need close to $12 billion in debt and $3 billion in equity to make it work. Then, on Apr. 19, Bear, Stearns & Co., Kerkorian's longtime investment banker, said it will play no role in the effort—a blow to the deal's credibility.

Even before the Bear Stearns move, bankers were growing increasingly skeptical that the dealmakers could line up bank financing quickly. In all likelihood, only a major U.S. bank or banks would have the credibility to lure in enough other lenders to make the deal work. But even as Kerkorian & Co. shop for a backer, regulators are warning U.S. banks that they may be lending too aggressively. "We will be spending an increasing amount of time talking to bankers about our concerns [about loan quality]," warns Comptroller of the Currency Eugene A. Ludwig.

The other major problem for Kerkorian and Iacocca: Many of the biggest U.S. banks have close ties to Chrysler and are unlikely to antagonize a major client to do a deal that may not come together. "We support our clients. We don't turn around and bite them," says one banker. The size of the deal also may be working against it. "It's a big number," says Stewart M. Boswell, managing director of NationsBank Corp.'s advisory-services group.

Certainly, Kerkorian and Iacocca could yet come up with the money they need. Banks still have big appetites for acquisition financing, and many bankers say they would be more eager to lend if the pair could get an industrial partner to take a stake in Chrysler. Analysts think Peugeot and Fiat are among their potential partners. Kerkorian's spokesman could not be reached for comment.

"JUST A LITTLE PIECE." But the bankers' reluctance still begs the pesky question: Who will go first? Chemical Bank, the nation's leading bank-loan syndicator, would seem a prime candidate. But in late 1991, it merged with Manufacturers Hanover Corp., which led the 1979 government bailout of Chrysler—and became Chrysler's lead bank. That makes it unlikely to back Kerkorian. J.P. Morgan & Co. and Chase Manhattan Bank also have strong ties to Chrysler. Chemical, Morgan, and Chase all declined to comment publicly.

What banks don't have close links to Chrysler? Citibank, for one. And while Bankers Trust and BankAmerica Co have done business with Chrysler, t also have worked for Kerkorian in past. All three banks declined pu comment. But sources say they are likely to get involved in a hostile bi

Even if a big bank or two jump i syndicate large enough to fund Chrysler deal might have to include m than 100 lenders all told. That's beca few banks now will hold more than million worth of any one loan—vs. $ million in the 1980s. "Everybody wa just a little piece," says Christopher Snyder, president of Loan Pricing Co

DRIFTING DOWN. Chrysler, meanwhile working hard to fend off the bid. It hired three investment banks—Mor Stanley, Salomon Brothers, and CS F Boston—to help craft strategy. And Robert Eaton said at a recent press c ference that the company won't give to Kerkorian. "Obviously, the board and will consider any offer out there," said, adding that "we're going to con ue running the business exactly the v we have been." Also, in daily conver tions with dozens of bankers, Thomas Capo, Chrysler's treasurer, and other finance officials are playing up the de risks.

What are the bid's chances now? former top Chrysler executive puts th at 50-50—and says he sold his stock day of the announcement. "I genuflec to the west, thanked [Kerkorian] for n points, and got out," he says. That v smart: The stock has steadily drif down since then. Maybe the market sensing something Kerkorian hasn' yet.

By Kelley Holland in New York a David Woodruff in Detroit, with Phi L. Zweig in New York at do I look for in a computer?

I look for a difference.

For a better way of working.

A better way of doing.

I look for software I can use.

Without a pile of manuals.

ook for hardware I can set up.

Without calling tech support.

I look for power today.

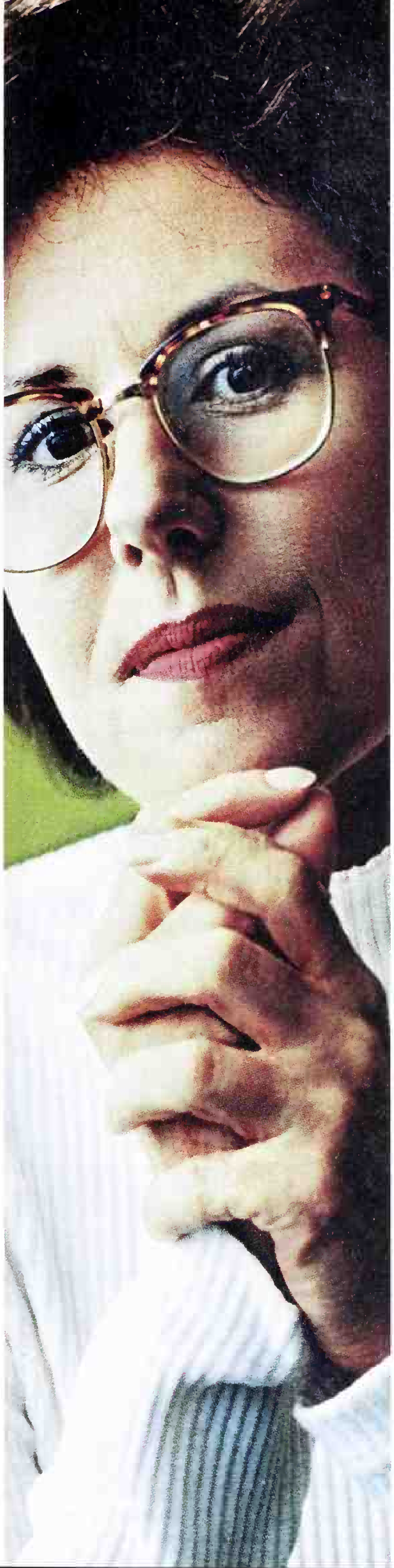
And potential tomorrow.

I look for a symbol.

A sign.

I look for this.

Mac OS



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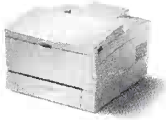

Plug and Play. It's a revolutionary concept pioneered by Apple. And promised by many. The difference is, with the Mac OS, you actually get it today. So when you want to connect to a network or set up a printer or a CD-ROM drive or any of hundreds of other peripherals and accessories, all you have to do is plug it in and get right to work. Or play. It's that simple.

What exactly is multimedia? Use a PC running the Mac OS and it's anything you want. You can add music, motion and magic to presentations, school reports, memos and more. You can edit videos. Watch TV. Or run the hottest new multimedia titles.

CLARIS
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Used to be, the only way to get your hands on the Mac OS was to get your hands on an Apple® Macintosh. Today, you'll find it on PCs from Radius, Power Computing and more. The same places, in fact, where you'll find our new logo. For more information, call **800-472-4342, ext. 100**, today. Or contact us via the Internet at http://www.info.apple.com/macos/macosmain.html.

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CORPORATE PROFITS

THIS COULD BE AS GOOD AS 1995 GETS

The first quarter was flush with tough-to-beat surprises

Is this what a soft landing feels like? Profits were up a robust **24%** on an **11%** revenue gain in BUSINESS WEEK's flash report on the first quarter. **Ford's** **71%** profit jump was a surprise, especially with U.S. car sales softer overall. Ford was able to make more money by selling high-profit Explorer sport-utility trucks and Windstar minivans. Over at **Coke**, the weaker dollar helped drive up soft-drink results: Profits were **22%** higher on **15%** sales growth. More surprises from **General Electric**, where its plastics and appliance units and NBC each generated double-digit profit increases, leading to a **13%** earnings gain. **Eastman Kodak's** **81%** profit jump caught Wall Street off guard, too. Its core film business registered **27%** profit growth and benefited from favorable currency exchange rates. Turnaround of the quarter? **Digital Equipment**. Riding strong Alpha computer sales, **DEC** made **$73.7** million, a major improvement over last year's big loss. Soft landing, indeed.

	CURRENT QTR. SAL (MILLIONS
INDUSTRIALS	155,333.4
ABBOTT LABORATORIES	2,524.4
AK STEEL HOLDING	610.4
ALCOA	3,009.8
BOISE CASCADE	1,223.0
CATERPILLAR	3,913.0
CHAMPION INTERNATIONAL	1,634.0
CHRYSLER	13,600.0
COCA-COLA	3,854.0
CONAGRA††	5,757.6
COOPER TIRE & RUBBER	365.4
CORNING	1,123.0
CPC INTERNATIONAL	1,954.6
DOLE FOOD	925.3
EASTMAN KODAK	3,209.0
FORD	34,783.0
GENERAL ELECTRIC	15,126.0
GEORGIA-PACIFIC	3,477.0
INLAND STEEL	1,257.7
INTERNATIONAL PAPER	4,500.0
ITT	6,538.0
JOHNSON & JOHNSON	4,496.0
LILLY (ELI)	1,717.3
MATTEL	543.6
McDONNELL DOUGLAS	3,333.0
MERCK	3,817.3
PFIZER	2,402.9
PHILIP MORRIS	16,517.0
ROCKWELL INTERNATIONAL†	3,361.0
RUBBERMAID	563.9
SCOTT PAPER	1,003.3
TRW	2,596.3
UPJOHN	866.7
WEYERHAEUSER	2,745.0
WHIRLPOOL	1,985.0
SERVICES	30,957.9
AMR	3,970.0
BANKAMERICA	NA
BANKERS TRUST NEW YORK	NA
BARNETT BANKS	NA
BEAR STEARNS††	1,027.4
CBS	897.7
CHASE MANHATTAN	NA
CHEMICAL BANKING	NA
CITICORP	NA
DOW JONES	545.4

CORPORATE PROFITS

NOT GRIEVING FOR THE GREENBACK

Exporters cheer the lift the dollar's plunge is giving them

Some call it a crisis. But Douglas R. Oberhelman, chief financial officer of Caterpillar Inc., has nothing but kind words for the dollar's recent plunge. Caterpillar, a big exporter of earthmoving and other machinery, saw an 18% increase in overseas sales, to $1.8 billion, in the first quarter of 1995. And Oberhelman gives the currency chaos a lot of credit: "The weaker dollar helps us around the world," he says.

Since December, the greenback has plunged 18% against the yen and 11.5% against the German mark. The dollar's decline may be worrisome to central bankers, but it's great news for American exporters: A weaker currency allows U.S. companies to increase earnings overseas without hiking prices or cutting costs, and puts them on a stronger competitive footing abroad. At home, they can raise prices without fearing that foreign rivals will undercut them.

Earnings reports from globe-trott companies point to the advantage. Upjohn Co., international sales soa 24%, with exchange-rate fluctuations counting for one-third of the gain. U john also benefited from double-di overseas sales growth of drugs such Halcion. Cleveland-based Parker H nifin Corp., a manufacturer of moti control products, saw international dustrial sales surge by more than 7 from the same quarter a year ago. Ab one-fifth of that increase was court of currency rate changes. The rest ca from acquisitions and stronger dema from improving economies overseas.

Currency fluctuations are aiding U

% CHG.	EST. EPS (2/13)	REPORTED EPS	DIFF.
+31	0.93	1.04	+0.11
+14	0.51	0.52	+0.01
+563	1.62	2.44	+0.82
NM	0.65	1.08	+0.43
NM	0.67	0.93	+0.26
+56	1.23	1.50	+0.27
NM	0.99	1.33	+0.34
-37	2.60	1.59	-1.01
+22	0.48	0.50	+0.02
+14	0.50	0.49	-0.01
+3	0.37	0.33	-0.04
+37	0.33	0.35	+0.02
+13	0.70	0.73	+0.03
-21	0.52	0.40	-0.12
+81	0.54	0.77	+0.23
+71	1.46	1.44	-0.02
+13	0.81	0.81	—
+314	2.14	2.59	+0.45
+379	0.85	0.84	-0.01
+224	1.67	1.95	+0.28
+13	1.75	1.91	+0.16
+20	0.95	1.02	+0.07
+25	1.15	1.30	+0.15
+12	0.13	0.12	-0.01
+19	1.26	1.38	+0.12
+12	0.61	0.61	—
+13	1.34	1.35	+0.01
+16	1.57	1.60	+0.03
+24	0.77	0.88	+0.11
+7	0.35	0.34	-0.01
+240	1.19	1.28	+0.09
+79	1.36	1.74	+0.38
+22	0.64	0.85	+0.21
+63	1.01	1.00	-0.01
+12	1.06	1.00	-0.06
-2	0.96	1.02	+0.06
NM	0.35	0.48	+0.13
+19	1.43	1.45	+0.02
NM	1.72	-2.11	-3.83
+9	1.24	1.27	+0.03
-28	0.38	0.60	+0.22
-68	0.63	0.32	-0.31
-29	1.25	1.29	+0.04
+24	1.37	1.51	+0.14
+36	1.41	1.53	+0.12
+8	0.47	0.48	+0.01

	CURRENT QTR. SALES (MILLIONS)	% CHG	QTR. PROFITS (MILLIONS)	% CHG.	EST. EPS (2/13)	REPORTED EPS	DIFF.
FEDERAL EXPRESS††	2,332.6	+12	63.1	**+102**	0.72	0.85*	+0.13
GANNETT	913.8	+4	86.2	**+10**	0.60	0.62	+0.02
HILTON HOTELS	381.9	+12	32.0	**+41**	0.62	0.66	+0.04
HUNT (J. B.) TRANSPORT	309.4	+17	4.9	**-15**	0.17	0.13	-0.04
KROGER	5,465.0	+3	64.5	**+16**	0.56	0.56	—
McGRAW-HILL	568.5	+2	14.0	**-7**	0.28	0.28	—
MERRILL LYNCH	5,203.9	+10	227.3	**-39**	0.94	1.08	+0.14
MORGAN (J.P.)	NA	NA	255.0	**-26**	1.47	1.27	-0.20
NATIONSBANK	NA	NA	443.0	**+6**	1.56	1.60	+0.04
ROADWAY SERVICES	1,087.0	+6	5.9	**-63**	0.41	0.15	-0.26
SCHWAB (CHARLES)	376.1	+16	38.4	**+1**	0.40	0.44	+0.04
TIME WARNER	1,817.0	+17	-47.0	**NM**	-0.12	-0.13	-0.01
TRAVELERS	4,298.9	-10	340.0	**0**	0.95	1.01	+0.06
USAIR	1,763.3	+5	-96.9	**NM**	-2.61	-1.91	+0.70
WELLS FARGO	NA	NA	233.0	**+15**	4.27	4.41	+0.14
TECHNOLOGY	24,936.9	+18	2,343.8	**+67**	0.81	0.89	+0.08
ADVANCED MICRO DEVICES	620.1	+21	96.8	**+14**	0.86	0.96	+0.10
CONNER PERIPHERALS	610.4	+8	0.1	**NM**	0.18	0.00	-0.18
DIGITAL EQUIPMENT††	3,467.5	+6	73.7	**NM**	0.24	0.44	+0.20
GENENTECH	239.0	+26	43.4	**+12**	0.30	0.36	+0.06
HONEYWELL	1,478.7	+10	54.7	**+15**	0.41	0.43	+0.02
INTEL	3,557.0	+34	889.0	**+44**	1.63	2.04	+0.41
LOTUS DEVELOPMENT	202.6	-18	-17.5	**NM**	0.26	-0.36	-0.62
MICROSOFT††	1,587.0	+28	396.0	**+55**	0.58	0.63	+0.05
MOTOROLA	6,011.0	+28	372.0	**+25**	0.65	0.61	-0.04
POLAROID	409.6	-11	-75.8	**NM**	-0.39	-1.66	-1.27
RAYTHEON	2,387.0	+3	173.9	**NM**	1.41	1.41	—
SUN MICROSYSTEMS††	1,505.0	+26	107.5	**+87**	0.84	1.09	+0.25
TEXAS INSTRUMENTS	2,862.0	+17	230.0	**+72**	2.05	2.41	+0.36
UTILITIES & TELECOM	45,651.0	+4	4,275.8	**+22**	0.67	0.68	+0.01
AMERITECH	3,145.7	+4	578.9	**NM**	0.76	0.76*	—
AT&T	18,262.0	+7	1,198.0	**+12**	0.81	0.76	-0.05
BALTIMORE GAS & ELECTRIC	715.3	-7	70.9	**-14**	0.47	0.41	-0.06
ENRON	2,300.0	-8	195.0	**+13**	0.78	0.79	+0.01
GTE	4,762.0	0	545.0	**+8**	0.57	0.56	-0.01
MCI COMMUNICATIONS	3,561.0	+11	244.0	**+17**	0.36	0.36	—
PACIFIC TELESIS	2,254.0	-2	282.0	**0**	0.69	0.67	-0.02
PUBLIC SERVICE ENTERPRISE	1,673.8	-7	212.6	**-8**	0.93	0.87	-0.06
SBC COMMUNICATIONS	2,877.7	+9	395.2	**+10**	0.65	0.65	—
SPRINT	3,271.5	+8	224.3	**-1**	0.65	0.64	-0.01
US WEST	2,828.0	+7	330.0	**+2**	0.71	0.70	-0.01

† Second-quarter results †† Third-quarter results NM = not meaningful NA = not available *EPS adjusted for special items

DATA: STANDARD & POOR'S COMPUSTAT SERVICES, A DIVISION OF McGRAW-HILL INC. EARNINGS ESTIMATE DATA PROVIDED BY I/B/E/S INTERNATIONAL INC., NEW YORK, NY. I/B/E/S IS A REGISTERED TRADEMARK OF I/B/E/S INTERNATIONAL INC.

panies in other ways. The green- ’s decline, for example, increases the ır price of steel imports, which make bout 25% of the U.S. market. That ws U.S. producers to raise prices ıout losing sales to foreign compa- Such dynamics sent AK Steel Hold- Corp.’s first-quarter earnings up to 3 million, from $10.3 million a year Analysts also expect big profit gains 3ethlehem Steel Corp. and LTV Corp.

ORD LEVELS. Not every company is a ency winner. The gains chipmaker anced Micro Devices Inc. derives ı the 56% of its revenues that comes ı overseas are balanced by the bigger for Japanese equipment it must buy for its new plant in Austin, Tex. And Ford Motor Co. says the higher prices it paid for Japanese and German parts cost it $100 million in the first quarter.

For many companies, though, the currency effect should intensify in the second quarter. Manitowoc Co., a Wisconsin heavy equipment maker, says future bookings are running at record levels, fueled by sales to Singapore, Vietnam, and South Korea. Earnings for Manitowoc and other exporters could soar—unless the dollar firms, of course. Then, Corporate America will be hard-pressed to keep the gains just won.

By Suzanne Woolley in New York, with bureau reports

STEELMAKERS: *Free to raise prices*

MICHAEL L. ABRAMSON

THE KNIGHTS OF BUSINESS

In a crop of corporate dramas, Knights of Malta are everywhere

FULL-DRESS CEREMONY: *The order traces its history to the Crusades*

When W. R. Grace & Co. Chief Executive J. P. Bolduc sensed a few months ago that his strained relations with Chairman J. Peter Grace were putting his job in jeopardy, he took his case to a rather unorthodox authority: John Cardinal O'Connor, Archbishop of the Archdiocese of New York. At Bolduc's request, the cardinal asked Grace to patch things up, hoping to avoid the scandals and the corporate upheaval that have since cost both men their jobs.

Grace rebuffed the advice, say sources close to the company; Grace, Bolduc, and the cardinal won't comment. But why did O'Connor even attempt to referee a boardroom blowup at W. R. Grace, a publicly held chemicals giant? Grace, Bolduc, and three other company directors—former Fidelity mutual fund whiz Peter Lynch, former Borden CEO Eugene Sullivan, and former University of Notre Dame administrator James Frick—all are Knights of Malta, an elite, secretive, Catholic lay order that counts O'Connor as its spiritual leader in the U.S.

The knights trace their history back some 900 years, to a band of warrior-monks who tended to the injured during the Crusades. Though the order has only about 2,600 U.S. members, several have played roles in recent high-profile corporate meltdowns. William J. Agee, ousted in February as CEO of Morrison Knudsen Corp., is a member, as are his wife, Mary Cunningham Agee, and at least two directors, Lynch and headhunter Gerard R. Roche.

The boards of both Grace and Morrison Knudsen have come under fire for not living up to their duties to shareholders. At Morrison Knudsen, the b
was widely criticized for allowing
company to deteriorate for years wit
replacing a poor-performing CEO. Gr
board was criticized as being too
with the Grace family, which long
joyed rich company-provided perks.
when Bolduc resigned on Mar. 2, a
sexual-harassment allegations he de
the board was criticized again for pa
out $47 million in separation benefit

The issue in these situations is
religion; nor is it, per se, the Knight
Malta, a benevolent group devote
charitable works. Rather, the questio
whether such close ties among a
work of influential executives have
fected business decisions. "What
membership mean?" asks activist sh
holder Robert A. G. Monks. "With
close bonds [as] Knights of Malta,
board as a group may have loyalty
themselves instead of the shareholde

"SELECT COMPANY." Prominent knig
dot the business and political landsca
Lee A. Iacocca, a knight for decade
part of a bid by investor Kirk Kerko
to take over Chrysler Corp., whose di
tors include at least one other knig
former Health, Education & Welfare

THE MALTESE CONNECTION

A partial corporate directory of the American knights

W.R. GRACE

J. PETER GRACE
Longtime chairman will resign May 11

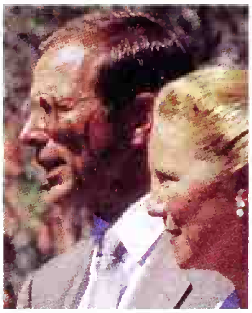
J.P. BOLDUC
Former CEO

PETER LYNCH
Director

HUGH CAREY
Executive

ROBERT DILENSCHNEIDER
Public-relations counsel

MORRISON KNUDSEN



WILLIAM AGEE & MARY CUNNINGHAM AGEE
Former chairman and CEO and his wife

PETER LYNCH
Director

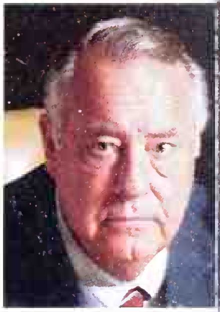
GERARD ROCHE
Director

CHRYSLER

LEE IACOCCA
Former chairman

JOSEPH CALIFANO
Director

INGERSOLL-RAND



THEODORE BLA
Former CEO, now director

JOSEPH FLANNERY
Director

J. PETER GRACE
Director emeritus

(TOP) ALAIN BUU/GAMMA LIAISON. (BOTTOM L TO R) GERALD DAVIS. AP/WIDE WORLD/THE IDAHO STATESMAN. MIGUEL DOMINGUEZ/LGI, DARYL-ANN SAUNDERS

ry Joseph A. Califano. Other knights ude Domino's Pizza founder Thomas aghan, Chase Manhattan CEO Thom-Labrecque, and public-relations ma- Robert Dilenschneider, who counts R. Grace as a client. Well-known col-ists Michael Novak and William F. kley Jr. are knights. So is Senator e Domenici (R-N.M.), along with for- Cabinet Secretaries William Simon Alexander Haig.

he knights also figure prominently the board of Ingersoll-Rand Co., ch recently agreed to acquire Clark ipment Co. Peter Grace is a director ritus at Ingersoll-Rand, and knights odore Black and Joseph Flannery e on the board. Former Ingersoll-d CEO Thomas A. Holmes, while not ight, is now the acting CEO at Grace.

n Europe, it takes four generations oble ancestry to become a knight. In New World, though, the rules for ission are somewhat relaxed by ne-ity. Still, being inducted is a big deal. u're joining select company," says Ia-a. Knights are asked to make regu- pilgrimages to Lourdes, a holy site Catholics, and to be active volun-s in charity work. Joining "had noth- to do with business," says recent in-tee Richard Torrenzano, former kesman for the New York Stock Ex-nge who now runs his own firm. "It an opportunity to really do some-ng substantial for people in need."

N COZIER? But to some critics, the s between knights reinforce com-nts that boards are too frequently mmy, nonconfrontational clubs. hen board members have other alle-ces [tying them] together, it may e it difficult for them to be objective loing their job in an independent ion," says Harvard business school fessor Jay W. Lorsch. The problem ot being a Knight of Malta, Lorsch es. Rather, any common membership n exclusive group can indicate per-al ties between some directors and CEO that should be publicly dis-ed. "Public shareholders have the t to know what the connections on t board are," Lorsch says.

imon, for one, would like to see the ghts become even more of a force: ere is a close bond when you meet ghts in other parts of the U.S. [and] iously a camaraderie. But [we're] not lose as I'd like to see." In the board-m, that may not be desirable. Clearly, ties that bind the knights weren't ng enough to prevent Bolduc or Agee n losing their jobs. But the camarad- instilled by the Knights of Malta y have affected the speed and charac- of directors' decisions—and that may e cost their shareholders dearly.

By Elizabeth Lesly in New York

INTERVIEWS

'WE'RE NOT TRYING TO BE A NICHE CARRIER'

CEO Schofield insists USAir can be a viable, national airline

SCHOFIELD: *"A significant improvement"*

KATHERINE LAMBERT

Can USAir survive? On Apr. 13, the airline's auditor, KPMG Peat Marwick, released a report on 1994's results that questioned the carrier's financial viability. Six days later, though, USAir announced a narrower-than-expected first-quarter loss of $96.9 million and a surprising profit of $42.2 million for March. What's more, the carrier recently has wrested concessions from its pilots and is negotiating givebacks with other unions. On Apr. 19, BUSINESS WEEK's Christina Del Valle interviewed CEO Seth E. Schofield about USAir's prospects.

Q: *What has changed since the auditors' report was written? And how likely is a Chapter 11 bankruptcy filing?*
A: There is no anticipation of a bankruptcy filing. At the end of the first quarter, we had unrestricted cash in excess of $400 million. And we've indicated that at yearend, we would expect to get at least that much in cash, barring unforeseen circumstances.... For the auditors to be comfortable, we would have to have all of the labor deals completed and approved, and that was not possible.

Q: *Is the $400 million enough to give the company the cushion it needs to carry it into the summer?*
A: Yes, based on forecasts that we are looking at for the balance of the year—barring unforeseen circumstances. If you look at first-quarter results, you can see a significant improvement. And if you focus on March, the beginning of the strength of the season, I think it bodes well.

Q: *The pilots' concessions represent 40% of USAir's $2.5 billion savings goal. Will the other unions provide the rest?*
A: A lot of time has been spent on the allocation among employee groups. Nearly 40% from the pilots is what the labor participants feel is fair. So the answer is yes.

Q: *How will you compensate for a rise in fuel costs?*
A: We have a higher fuel number in the budget for the balance of the year than what we experienced in January. Our employee productivity for March on a year-over-year basis was up 10.1%, which is very significant. We have 1,700 fewer employees than we had a year ago. Before yearend, I expect to reduce staffing by between 1,200 and 1,500 employees.

Q: *British Airways PLC has been patient with its [$300 million] investment [in USAir]. Will it invest more?*
A: In the short term, we do not have a need for new capital. After we take delivery of eight 757s this year, we will not have any new deliveries of aircraft in '96 or '97. With respect to BA, our relationship is stronger today than on the day we signed the agreement. BA has seen either cost reductions or revenue enhancements in the $100 million range. When USAir returns to profitability, they intend to invest more money.

Q: *Will USAir continue to be a national carrier?*
A: We want to be the prominent airline from the East Coast to any place in the world. We can do that ourselves or through our alliance with British Airways. We're not trying to be a niche carrier.

ACTE DE DECES
AMERICAN MEDICAL DIRECTORY
AMERICAN MEDICAL DIRECTORY
DIRECTORY
3
4

KELLNER: *The boy on this death
certificate was alive and well in Ma*

STEVE SKOLL

INSURANCE

BATTLING THE LIVING DEAD

A rash of fake claims has insurers, well, sick to death

Insurance investigator Diane Kellner was suspicious at once. Last fall, a big insurer asked her and associates at First Services, based in Jericho, N. Y., to check out a $10,000 life-insurance claim involving the death of a 9-year-old boy in a taxi accident in Mali. The policy was new, and the boy's father, who was living in New York, said his son had been buried in the West African nation before his family was notified of his death. In Mali, however, an investigator found the child playing in his grandfather's yard. The official who signed the death certificate acknowledged that he had been paid to do so and had never seen a body. "It's a scenario that is so common—and has proven false so many times," sighs Kellner.

Indeed, life insurers are up in arms over the latest hot insurance scam: faked deaths. A spokesman for the Coalition Against Insurance Fraud says the trade group has noted an alarming increase in anecdotal reports of the swindles, especially those involving deaths staged abroad. The reason, says Sam Lawrence, an independent investigator based in Springfield, Mo.: "The profits are enormous, and usually the chance of prosecution is small."

It also has become an easy scam to pull off. Desktop publishing systems can churn out authentic-looking copies of death certificates. Plus, officials in some Caribbean and African countries are happy—for a fee—to hand out documents showing death has occurred. Closer to home, one investigator, Miles A. Hebding of Long Beach, Calif., says gangs are selling what appear to be official Los Angeles County certificates on the streets. The price: between $500 and $1,000 each.

What's more, the culprits face little risk—so far. Insurance antifraud effo
are focused on more traditional chic
ery, such as workers' compensat
fraud. Even when insurers laur
heavy-duty investigations, the benefic
ies they nab often get off with impun

Just ask Michael J. Zanardi, direc
of life and health claims at State Fa
Insurance Cos. Last year, the insu
hired an investigator to verify the de
of a policyholder who was report
killed in a car accident while visit
his homeland of Vietnam. The hospi
where the victim supposedly died h
no record of the incident, and the de
certificate turned out to be a fake. St
Farm passed on the information to t
state where the man's wife had m
the claim, but no charges have b
filed. "When there is no actual loss
the insurance company," Zanardi sa
"prosecutors are less interested."

EASY MONEY. That's starting to chan
Last year, Massachusetts Attorney G
eral Scott Harshbarger brought t
criminal cases involving attempts to c
lect life-insurance benefits based on p
ny death claims. Samson Omosefunmi
37-year-old Fall River man who h
been scheduled for deportation, has be
sentenced to up to five years in pris
for trying to use a bogus Nigerian dea
certificate to collect on a $134,000 pol
on his wife. In another case, François
Maisonneuve is awaiting trial on cha
es he used a fake Haitian death cert
cate and burial permit to try to coll
on a $100,000 policy on his brother.

Meanwhile, cases involving far m
money are coming to light. In Mar
San Diego police arrested
year-old Samuel Allen for tryi
to collect nearly $2.2 million
insurance benefits on the death
his brother, Steven. Trouble w
Allen didn't have a brother
all. To get the policies, he alle
edly sent in his medical recor
with the name changed. And f
his claim, Allen also allegedly h
put together a fraudulent obit
ary, proof of death, and poli
report. "It was very w
planned," says Kim-Thoa Hoar
deputy district attorney for S
Diego County. Allen is pleadi
not guilty to the charges.

As the scams proliferate, l
insurers are playing catch-u
Meanwhile, the crooks are ma
ing a killing.

By Amy Barr
in Washingt

Scoping Out Scams

The telltale signs of a fraudulent life-insurance claim

DEATH OCCURRED OVERSEAS In places such as Haiti and Zaire, political turmoil makes investigations difficult and false death certificates often are easy to get.

LACK OF PHYSICAL EVIDENCE Fake claims often say the deceased was cremated. Or some beneficiaries claim unidentified bodies from foreign morgues and use their burial papers to support a claim.

PAPERS PERFECTLY IN ORDER Relatives of someone who has died often do not know what paperwork is required for insurance. A red flag is raised when the beneficiary quickly provides all the required documentation.

NALLY, HUMAN RIGHTS OR MOTORISTS

tor vehicle departments test a new concept: Service

LICENSE EXPRESS
REGISTRY OF MOTOR VEHICLES
SEARS

BRIAN SMITH

employees "were friendly and ned genuinely happy to be doing their s... the wait was minimal. Thank n for a most positive experience...."
—Letter to Connecticut's Department of Motor Vehicles

ardly the kind of feedback you would expect to hear about the old state DMV. Traditionally, long lines, ly staff, and an abyss of red tape e made visiting these agencies a ıtmare for drivers. However, under ncial pressure to cut costs and polit- pressure to reengineer government, 's are remaking themselves in the ge of private enterprise, as service inesses whose aim is to keep costs and the customer happy.

Connecticut's kinder, gentler DMV is a d example. Forced to close eight nches, the agency asked shopping ls to provide 15 rent-free offices. l developers figured the DMVs would rease traffic to their stores and eed. The state is eking out savings other ways as well: Connecticut erican Automobile Assn. offices now vide photo licensing at no cost to state, and companies such as Gen- l Electric Co. and Aetna Life & sualty pay for DMV clerks to make ular visits to their offices to serve ir employees. The agency bought l rebuilt three used buses to travel the companies and other locations.

NO MORE DMV HELL

How states are "reengineering" departments of motor vehicles

KIOSKS California and Virginia will try ATM-style machines at which drivers can order plates and renew registrations. Oregon, Georgia, and Massachusetts have put offices in malls.

MOBILE UNITS Florida and Connecticut run mobile DMV offices to serve big companies.

DMV-TV Time Warner is talking with some states about creating an interactive cable channel on which drivers could call up their records, renew registrations, and take written driving tests.

PHOTOGRAPHIC IMAGING Many states are switching to digital license pictures, which can be stored in computers so renewals can be done by mail.

The result: With 250 fewer employees, Connecticut has 22 more outlets than before—and is saving $7.5 million annually, says DMV Commissioner Michael W. Kozlowski.

Wherever possible, states are farming out DMV business to save money. Illinois and Oregon, among others, allow auto dealers to register new cars on site when they're sold. In Arizona, where DMV division director Russell Pearce says his wife was once afraid to tell people where he worked, the state made $40 million partly by creating lifetime licenses. These cost up to $25, vs. $7 for the four-year licenses, but needn't be renewed until age 60.

MALL PIT STOP: *Now, you can renew your license on a lunch break*

New technology also is helping pull the agencies out of the Dark Ages. In Massachusetts, where the DMV was notorious for not answering the phone, reforms such as interactive-phone banks and credit-card fee payments have streamlined the process. Now, speeding tickets can be paid on the spot—by punching a credit-card number into a cellular phone.

Other innovations are on the way. Some states now use digital photo-imaging for license pictures, so photos can be stored on computers. That way, DMVs can renew or replace lost licenses by mail. Florida and other states are talking to Time Warner Inc. about creating an interactive cable channel that would provide information and testing for written driving tests and allow viewers to call up records, outstanding tickets, and renewal times. Using information provided by the channel, residents also could pay fees electronically or by touch-tone phone.

NOTHING PERSONAL. In fact, doing business with some DMVs soon may be as easy as using a bank card. Virginia, Washington, and California are planning to roll out ATM-style kiosks made by the likes of AT&T and IBM where drivers can transact DMV business. Eventually, licenses may have magnetic strips like credit cards that can be swiped through a machine to verify information. The goal of such changes, says Massachusetts Registrar of Motor Vehicles Jerold A. Gnazzo, is "to never see the customer again."

In the meantime, though, the DMVs claim that customer satisfaction is way up. Partly, officials say, that's because employees themselves are more pleasant, since their workloads are lighter. Plus, waits in line often are way down. Just ask Chicago lobbyist Mark Pufundt, who remembers taking a 25-minute drive on his lunch break to spend two hours getting new plates. "Me and half the world who got there ahead of me would stand in line, and then wait in line No. 2, and then line No. 3," he recalls. No more. Pufundt recently purchased his new plates in less than five minutes using a touch-tone phone. Now, that's reengineering.

By Pam Black in New York

MARKETING

EXTRA-STRENGTH ASPIRATION

Can Bayer's new owners expand the market?

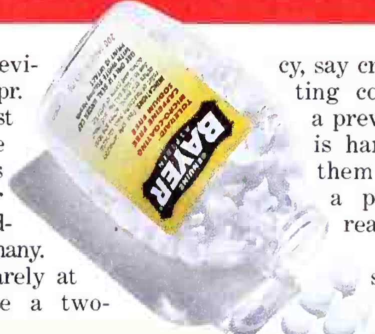
Bayer AG, the giant German drugmaker, spent 75 years trying to win back the rights to its name in the U.S. Last September, it finally recaptured its American trophy, paying SmithKline Beecham $1 billion for the business stripped from it after World War I. German executives were jubilant.

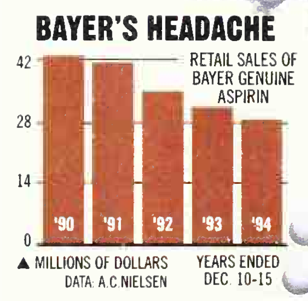
But oh, what a headache.

Bad enough that the Bayer brand's U.S. sales, battered by generic rivals, fell 8% last year to $110 million. But aspirin products all are fighting to keep market share from Tylenol, Advil, and other nonaspirin remedies. Supermarket sales of flagship Genuine Bayer Aspirin slipped from $42.4 million in 1990 to $28.1 million last year, according to A.C. Nielsen Co. (chart).

Now, Bayer is launching its own version of pain relief: a $40 million marketing campaign, including television ads set to debut on Apr. 21. That's a 33% hike over last year's spending. "We are ready to fight back," says Klaus Kluthe, a consumer care executive at Bayer headquarters in Leverkusen, Germany.

The new ads, aimed squarely at aging baby boomers, take a two-pronged approach. TV spots for Extra Strength Bayer—featuring, for example, an older father painlessly horsing around with his young son—will stress efficacy. Meanwhile, a print campaign for Aspirin Regimen Bayer, which debuted in February, plugs aspirin's ability to ward off heart attacks and strokes.





DATA: A.C.NIELSEN

EROSION. With such tactics, Bayer hopes to double its U.S. market share to between 8% and 10% by 2000. That may be a tall order. "I can see them turning this around. I can't see them making it a top brand," says Samuel D. Isaly, a partner at health-care research firm Mehta and Isaly. Bayer's push to sell aspirin as a heart-attack fighter is chancy, say critics, because g ting consumers to t a preventative typica is harder than sell them a remedy a problem they ready have.

Even if Bay succeeds in panding the m ket for aspi it will conti to be hurt private-lab products th sell for one-th the price. Bay says it will res slashing prices buy market share. also will introduce n formulations: An as rin/sleep aid combination, for one, coming this summer.

Bayer's big edge: After 100 years use, it has nearly universal name rec nition. Analysts, furthermore, say U.S. operations generate plenty of ca For the boost to its corporate ego, t may be one headache Bayer can affo

By Mary Kuntz in New York, w bureau reports

TOURISM

THE TRAVEL BUCK STOPS HERE

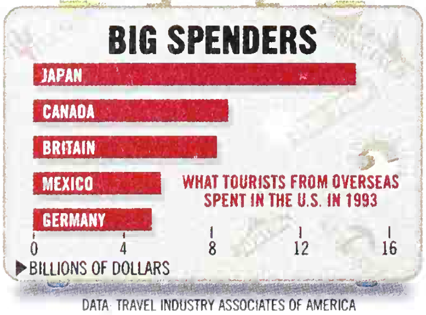
A weak dollar is making the U.S. a hot spot for vacationers

America, give a warm welcome to Naomi Sasaki. The 27-year-old Tokyo resident will spend six days in Oahu this July, and she plans to bring her wallet. She'll lay out perhaps $3,700 for food, transportation, and clothes for her toddler and a surfboard for her husband. "It's lucky that the yen is strong now," she says.

Summer is coming, and so are the Japanese. And the Germans, and many others. With the dollar near all-time lows vs. the yen and the mark, the U.S. tourism industry—everyone from Denver dude ranchers to helicopter flight operators out of Juneau, Alaska—is expecting a boom season. "This will be the best summer in the history of Best Western without question," says Thomas Waffle, director of North American reservations at the 3,400-hotel chain, whose advance summer reservations are up by 14%.

Los Angeles is bracing for a flood of foreign visitors. The riots of 1992 and last year's Northridge earthquake combined to severely dampen Japanese travel to Southern California. Now, though, tour operators report that May and June bookings to the city by Japanese travelers—who spend 50% more than Americans—are up 15% from last year; bookings for July through September are up 10%. At the Universal Studios Hollywood theme park, the Japanese-visitor count this March was more than 50% higher than a year ago.

German visitors, meanwhile, are winging westward. In Washington, German tourism has increased 52%, to 172,000 in 1994, from five years ago. German travel companies are predicting an overall increase of 5% to 10% in Germans vacationing in the U.S. For now, the crow from Germany and Japan may be b anced by fewer visitors from Mexico a Canada, whose currencies have we ened against the dollar. In the long r though, "it will be a positive net impa says Greg Farmer, Commerce Und Secretary for Travel & Tourism, si German and Japanese tourists tend return once they've visited the U.S.



DATA: TRAVEL INDUSTRY ASSOCIATES OF AMERICA

CHEAP GAS. Dollar woes haven't mu curbed Americans' appetite for forei adventure: The European Travel Co mission is expecting 8.7 million Ame can travelers this year, and the U. State Dept. expects to issue a rec number of passports. Trafalgar Tou a London company that specializes European bus tours, says this summe bookings from Americans are up 2 over last year.

But many Americans will stay home, too. Gasoline, at an average $1.13 a gallon, is reasonable, and a lines have plenty of unsold seats. Ur ed Airlines Inc. says advance U.S. ti et sales for the summer are up 5% fr 1994—but adds that capacity is up to 4%. Come July, Sasaki will have pl ty of company on Oahu's beaches.

By Nanette Byrnes in Los Angel with Hiromi Uchida in Tokyo a bureau reports

(TOP TO BOTTOM) PHOTOGRAPH BY MONICA STEVENSON, GRAPHIC BY ROB DOYLE/BW

In Business This Week

TED BY KEITH H. HAMMONDS

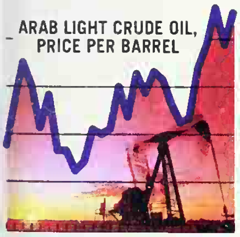
STON CO. BRASS 'S THE ROAD

LON BANK HAS SUFFERED :her blow in its push to ›me a money-management erhouse. On Apr. 19, the top executives at its Bos- Co. asset-management , including President Des- ıd Heathwood, resigned. y say they plan to launch r own investment firm. exodus follows Mellon's ction of a buyout offer by thwood—his second since 2. And it caps a history lisputes over compensa- and control since Mellon $1.5 billion for the unit 992. A major source of ion, say insiders: the fir- of two Boston Co. traders year following $130 mil- in derivative losses. Mellon faulted Boston Co., but Heathwood is said to have believed Mellon should have shared the blame. Heathwood, whose team brought in most of Boston Co.'s assets under management, did not return calls. Mellon, which also has lost key personnel at its Dreyfus mutual-fund unit, cited "significant philosophical differences between Mr. Heathwood and us" in explaining the exodus.

CLOSING BELL

'UMPED BACK UP

prices' roller-coaster ride ı't over. The U.N. Security uncil's offer to allow limit- oil sales by Iraq sent ıde prices tumbling 5% on r. 13. But contracts spurt- back up on Apr. 18, after ddam Hussein snubbed plan. More upside could in store. With oil prices nominated in weak dollars, mand in Europe and Asia s been surging. Plus, the nton Administration's ıgh line on Iran already is using big buyers, such as ‹on and Mobil, to scramble supplies elsewhere.



DATA: BLOOMBERG FINANCIAL MARKETS

CLINTON TURNS UP THE HEAT ON JAPAN

THE CLINTON ADMINISTRATION trade warriors are wielding some big clubs to force Japan to open its market for autos and auto parts. The most recent round of negotiations ended on Apr. 18 with no breakthroughs. Now, Administration sources say the U.S. will slap extraordinary 100% punitive tariffs on Japanese luxury cars imported from Asia if Tokyo doesn't make concessions. Officials also are weighing tariffs on Japanese-made parts. Japanese negotiators say they will pull out of talks if the U.S. continues to threaten trade sanctions.

REICH VS. EXECUTIVE PAY

EXECUTIVE PAY DROPPED from the stratosphere in 1994, but it's still in the Clinton Administration's sights. Labor Secretary Robert Reich, in an Apr. 21 speech, is expected to lambaste the widening compensation gap between companies' top executives and workers as evidence of "the breakdown of the corporate contract." Most companies, he says, aren't sharing the fruits of rising productivity with their employees. The speech contains no proposals to limit CEO pay, but Reich's musings—such as last fall's speech on "corporate welfare"—often signal future Clinton initiatives.

HEADLINER: RONALD ALLEN

THE PILOTS BLOCK DELTA'S FLIGHT PATH

There's turbulence ahead for Delta Air Lines. A year into a three-year program to trim operating costs by $2 billion, Chief Executive Ronald Allen has made great progress. He has cut 10,000 jobs, experimented with ticketless flying, slashed agents' commissions, outsourced data processing, and agreed to share routes with foreign airlines. By June 30, the savings will be $1.2 billion.

But on one vital issue—cutting pilot costs—Allen has hit a wall. Delta aims to cut $340 million, but there has been little headway since October. The two sides still are "hundreds of millions of dollars apart," says Harry C. Alger, operations vice-president. So, on Apr. 17, Delta asked a federal mediator to help resolve things.

Pilots say Delta is turning outside only because it fears running behind on internal cost-cutting goals. "We're not at an impasse, we're not at a stopping point, we're not at a face-off," says Cameron Foster, communications chairman for Delta's Air Line Pilots Assn. The pilots say they'll cut pay but want stock and a board seat in return. So far, Allen isn't offering either.

By David Greising

BANK LENDING: NEW RULES—AGAIN

AFTER NEARLY TWO YEARS OF debate, regulators on Apr. 19 unveiled new Community Reinvestment Act regulations to streamline supervision of bank lending in inner-city and rural areas. Earlier versions had drawn fire from bankers, and one of the most controversial provisions, requiring banks to report small business loans by race and gender, has been cut. This is unlikely to be the last word. Republicans have proposed bills to exempt small banks.

THE FCC AUCTION CAN PROCEED

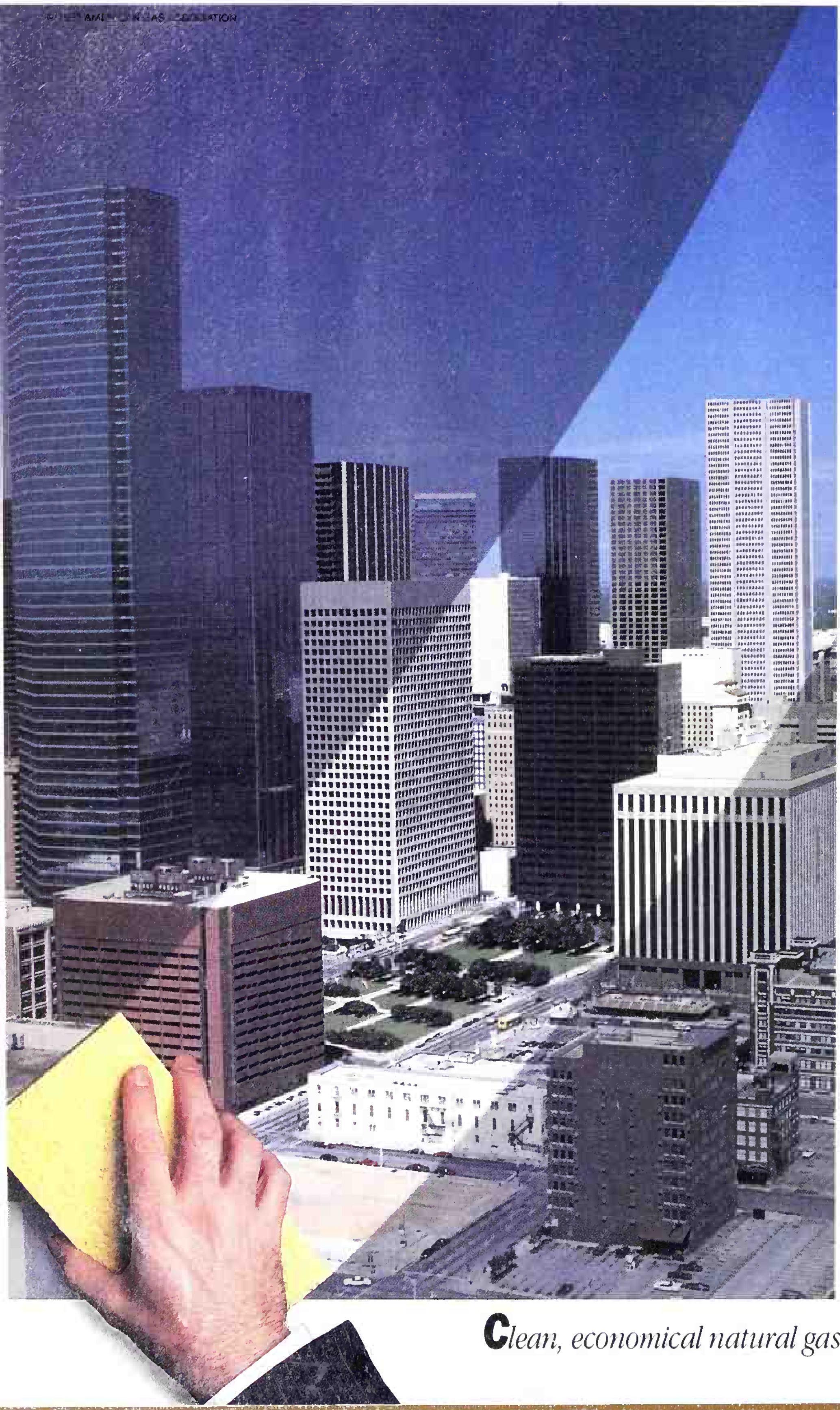
TELEPHONE ELECTRONICS IS backing down. On Apr. 18, the rural phone company withdrew a suit that had blocked the Federal Communications Commission's auction of wireless phone licenses. TEC had challenged rules that kept it out of the next round of bidding, reserved for small business, minorities, and women. But now TEC is getting what it really wanted: a deal with a group that includes AirTouch, U S West, Bell Atlantic, and Nynex will allow it to build PCS systems where it already provides local service.

ET CETERA...

- ▪ Sallie Mae dissidents will meet investors on Apr. 20 in their push for board seats.
- ▪ Time Warner will sell 51% of Six Flags, whose CEO, Robert Pittman, is quitting.
- ▪ DreamWorks SKG won a $300 million investment from Korea's Lee family.
- ▪ Pacific Telesis will pay $120 million for Cross Country, a wireless-cable outfit.

L TO R) PHOTOGRAPHS BY CURT WILCOTT/GAMMA LIASON, NAJLAH FEANNY/SABA

Don't you wish
we could just do this to CFC



In a way we can—if we cool our buildings with natural gas.

Natural gas absorption cooling equipment cools with water, rather than with CFCs, which deplete the ozone laye

It also has fewer moving parts than conventional cooli systems, which means mainte-nance costs are lower.

And, because it costs much less to operate, it cuts th energy costs of cooling—by up to 50%.

There's another big benef too. It saves electricity during the heat of the summer, when demand is at its highest.

As a result, we can help our cities avoid brownouts. And help reduce the need for power plants. Best of all, we can help America balance the use of its energy resources.

No doubt about it, natura gas is a high-tech, low-cost way to keep cool without CFCs.

It's a cool way to help sav our ozone layer, too.

Clean, economical natural gas. Think what we'll save.

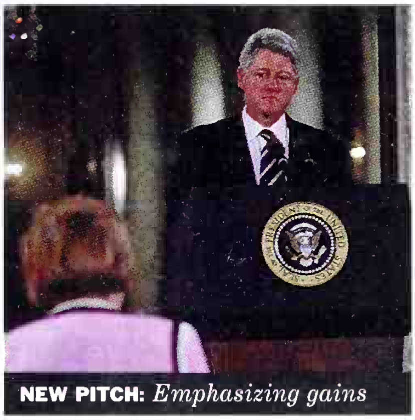
ITED BY DOUGLAS HARBRECHT

LINTON HAS WOMAN PROBLEMS. O, IT'S NOT WHAT YOU THINK

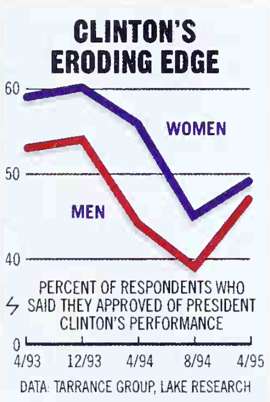
ill Clinton likes to talk about the strong women in his life—his wife, mother, and grandmother. He has depended on another female source of strength as well: the nan voter. In 1992, Clinton won the Presidency by winning more female support than did George Bush.

ince early in his Presidency, though, Clinton's approval ngs among women have slipped. White House political isers worry even more about another phenomenon: Wom- who vote more Democratic than men, stayed home in the 4 congressional elections. Exit polls showed that 51% of 4 voters were female, n from 54% in 1992.

uch slumping turnout—pled with strong male port of Republicans—led he GOP takeover of Con- ss. Democratic pollster inda Lake argues her ty must now pay as h attention to these “am- alent women” as to “an- white men.” Says Lake: 1994, if women were as husiastic for Democrats men were for Republi- s, then Democrats would e won the House and Senate.”



NEW PITCH: *Emphasizing gains*



DEN GAINS. Anti-Clinton sentiment was a big reason for lethargy, and the White House is working on a pitch it es will energize females in time for 1996. Clintonites say t battles over deficit reduction and trade masked such ns as new money for breast-cancer research. “We didn't nd enough time reinforcing a message that resonates h women,” says White House aide Alexis M. Herman.

)ne target: women who are telling pollsters that Clinton n't keep his promise to help them in their struggles to e their families. The polls say the failure of health-care reform angered women more than it did men. Also, women are more pessimistic about the economy. While men focus on taxes and the deficit, women worry about jobs and income stagnation, surveys show.

So, the White House is trying to appeal to struggling women. Clinton talks about the burdens families carry and how his proposed child tax credits and job-training grants will help. He has proposed a minimum-wage hike, noting that two-thirds of minimum-wage earners are women. And he hopes attacks on the GOP for “heartlessness” in attempts to overhaul welfare and child-nutrition programs will strike a chord with females.

The strategy may be paying off. Clinton's ratings among women have turned up recently. Aides hope he'll win more points by fighting for Surgeon General nominee Henry Foster, who's under GOP fire for doing abortions. The White House even sees a silver lining in the affirmative action debate. Polls show such programs are more popular with voters overall when they're seen to be helping women rather than minorities. And, says White House Deputy Chief of Staff Harold M. Ickes: “What's been overlooked in the debate is how strongly women feel about affirmative action.”

Yet while affirmative action may be popular with Clinton's strongest supporters—college-educated women—it holds little sway over female swing voters, homemakers and non-college-educated women. Clintonites think they too can be won over. Perhaps. But if he can't shore up the constituency that won for him in 1992, his hopes for 1996 could be dashed.

By Susan B. Garland in Washington

CAPITAL WRAPUP

0 MORE FREE AIR

Republicans are looking in some un- xpected places for cash to pay for eir proposed tax cuts. The GOP-con- olled Congress wants to require oadcasters to cough up unspecified ervice fees” for use of new space on e public airwaves. The provision is rt of a major revision of the nation's mmunications laws set for Senate tion next month. House leaders also ck the fee for use of space originally t aside for high-definition television. andwidth for HDTV is unneeded now that the industry is leapfrogging to digital TV, which hogs less spectrum. Broadcasters say they're willing to pony up millions in service fees—if it means escaping paying the $10 billion to $100 billion that critics say the airwaves would fetch on the auction block. The Treasury has raked in nearly $9 billion from other spectrum auctions in the last year.

PLYING PRYOR

▶ Faced with mounting Democratic retirements on Capitol Hill, the White House is pressuring Senator David H. Pryor (D-Ark.) to run for a fourth term next year. The push comes from fellow Arkansans President Clinton and his senior adviser, Thomas F. McLarty III. Pryor, who suffered a heart attack four years ago, looks like a shoo-in for reelection. But he is wavering on whether to make another run because of health concerns. Democrats fear that his seat is at risk if he leaves. With four Democratic senators already calling it quits, the GOP could win a filibuster-proof majority of 60 in 1996.

PHOTOGRAPH BY MARTIN SIMON/SABA, CHART BY ROB DOYLE/BW

Information management isn't just processing 3 million voice messages every day.

Information management also helps Tom Welch confirm that the big deal went through.

Information management isn't just processing over 10 million emergency phone calls a year.

Information management also makes sure Carol Boyd's daughter gets the medical treatment she needs.

Information management isn't just processing 10 billion checks a year.

Information management also confirms that the Tremba Design check cleared today.

Information management isn't just processing millions of reservations for 140 of the world's airlines.

Information management also tracks every leg of Richard Wong's trip—even across several airlines.

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Ordinary data processing vs. Unisys information management.

The difference between sight and insight.

If you need to do information
cessing, there are a lot of compa-
s out there ready to take your
ney. When they're done, you may
n be able to process invoices faster.
d that's important.

But if you wish that all the
ormation you collect every day
ld make your company more
npetitive—and could be used to
p serve customers better—there's
ly one real choice: Unisys.

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UNISYS

RUSH JOB: *Given free rein, Kurt Krause's team engineered a machi*
tool system in record time

WOLFGANG KNAPP/THEMA

GERMANY

SIEMENS SHAPES UP

So long, plodding perfectionism. Hello, aggressiveness

For Wolfgang Knüpfer and his 11 subordinates, it was a nerve-racking ordeal. Seated at a conference table, the 52-year-old Siemens manager listened for two hours while staffers critiqued his performance. Shaking off their fear of offending their boss, they urged him to make decisions faster and improve his rapport with employees. Says Knüpfer, who runs X-ray tube production and development: "I realized they thought I was a bit authoritarian."

It was hardly a typical encounter between a German executive and his employees. But Knüpfer survived. Now, after a session with the company psychologist, he's learning how to manage differently. He gives more positive feedback and acts more decisively. His 11 staffers have since been critiqued by their employees, and soon, such bottom-up reviews will be expanded throughout the $60.4 billion company. It's all part of an upheaval in Siemens' stolid, hierarchical, and very German corporate culture.

Step inside the new Siemens. After nearly a decade of hit-or-miss efforts to speed product development and restructure, Siemens has finally shed its plodding perfectionism. Gone are the endless meetings, the aimless research, the fear of taking risks. Now, a new generation of managers is fostering cooperation across the company: They are setting up teams to develop products and attack new markets. They are trying hiking expeditions and weekend workshops to spur ideas and new work methods.

Siemens' brass call it a cultural revolution. There's a new emphasis on revving up innovation and pleasing the customer. "It's a completely different way of thinking," says Siemens Chief Executive Heinrich von Pierer, 54. The result: a different approach to produc
everything from hearing aids to po
plants. "This is exactly what we ne
he says. "People are no longer af
to speak out with an idea."

Von Pierer is clearly the guiding f
(table). Since taking the helm in 1992
has shuttered factories, slashed pay
and forced Euro-centric managers
high-growth Asian markets. He has
opened up Siemens for a financial ai
In 1994, he began disclosing profits
Siemens' eight divisions, making ma
ers answerable for the bottom line.

His most critical challenge has b
to break with entrenched managem
practices. By trying to change the
mens mind-set, he has gone beyond
cost-cutting of most of corporate Ger
ny and of Siemens' European riv
This gives Siemens its best chance
to compete against big global comp
tors such as General Electric Co.
ABB Asea Brown Boveri (Holding) I

"CAN'T STOP." Von Pierer's task is
the more demanding now. The 10%
in the mark against the dollar this y
is slamming German exports. Hefty
raises won by IG Metall workers
March hiked Germany's wage costs,
ready the world's highest. To keep
the momentum, von Pierer has a t
pronged strategy: evermore cost-

coupled with reaping the rewards e cultural revolution.

two years, von Pierer has cut ıens' workforce by 7.5%, to 382,000. vill slice 12,000 more jobs and $3.6 n in operating expenses by the fis- yearend on Sept. 30. Says Peter electronics analyst for Banque Pa- ; in London: "Siemens has turned corner, but they can't stop now."

ore important than slashing, howev- von Pierer's drive to keep manag- on top of innovation. He champions successes as the Siemens automa- group. It developed a new machine-control system in two years—a the usual time—for one-third the of previous systems.

ack in 1992, Siemens automation ager Klaus Wucherer hand-picked zen engineers to develop the sys- He rented a house down the road headquarters, set them loose in , and tapped Kurt Krause, a mara- runner with a competitive spirit, as ain. Last fall, just as the machine- market began to recover, Wucher- team unveiled a state-of-the-art sys- Sales boomed.

ıch successes weren't that easy to eve. When von Pierer started his e-up of Siemens, he won the sup- of senior managers. He hit a brick though, when he failed to prepare est of the company. The attempt to st thousands of bureaucrats into epreneurs sparked confusion and tance.

von Pierer turned to board mem- Walter Kunerth, who had won ku- for a turnaround at Siemens' auto- ve unit. Kunerth incorporated the pany's hodgepodge of projects into a program called TOP—time-optimized esses. The program encourages tivity, speed, and a keen focus he market. Last year, Kunerth ched a high-profile educational cam- n aimed at employees at all levels.

nder TOP, Siemens has taken radical sures to force managers to adapt ern market demands. The company d in blue-ribbon customers such as , Ford, and Sony. At one workshop, Corp. blasted chip managers for en service and erratic delivery. ere were plenty of shocked faces," lls David Vicker, deputy manufactur- chief of Sony's TV plant in Wales. "It brutal," admits a Siemens manager. unit got the message.

on Pierer's whole campaign is aimed getting Siemens into new high- wth markets, especially in Asia. Sie- s has historic ties—it sold China its power generator in 1872—but it not kept up with the Americans Japanese. Now, von Pierer plans to st $3.4 billion by the year 2000 in Asia and to double sales, to $14.3 billion.

Power generation is one growth area. Siemens formed a "Taiwan Team" to break into a market dominated by GE and won the bidding for its first two projects: $715 million power stations in southern Taiwan. "We are fighting ferociously over there," says Robert W. Schubert Jr., director of marketing for ABB's power business, which is vying with Siemens in Asia.

PAYOFFS. Perhaps the single largest sore point left is computer division SNI, the last unit still posting losses. Gerhard Schulmeyer, former chief of ABB's U.S. operations, has been cleaning house since taking over the $8.4 billion unit last spring. Sales are up 8%, and Schulmeyer expects SNI, which bled an estimated $1.4 billion in the past four years, to post an operating profit this year.

Even with SNI still lagging, the cultural revolution at Siemens is starting to pay off. While net profits slipped 17%, to $1.18 billion, in the year ended last September, earnings jumped 8% in the three months to December, and analysts see a 20% increase for the year. Siemens' share price has risen 10.3% since mid-December, even as the Frankfurt market stayed flat.

With lower margins than global rivals GE and ABB, Siemens still has a ways to go. Its pretax return on sales was just 2.5% in 1994, compared with 4.9% for ABB and 14.4% for GE. But "Siemens is now on the right track," says management consultant Roland Berger.

Even so, von Pierer knows that he can't let up. "We have to keep asking ourselves: Are we flexible enough? Are we changing enough?" he says. Recently, he included self-addressed postcards in the company magazine, urging employees to keep sending him their ideas. He expects a torrent of responses. Only with that kind of attitude can von Pierer keep Siemens in fighting form.

By Karen Lowry Miller in Munich, with bureau reports

VON PIERER IS SHAKING UP SIEMENS...

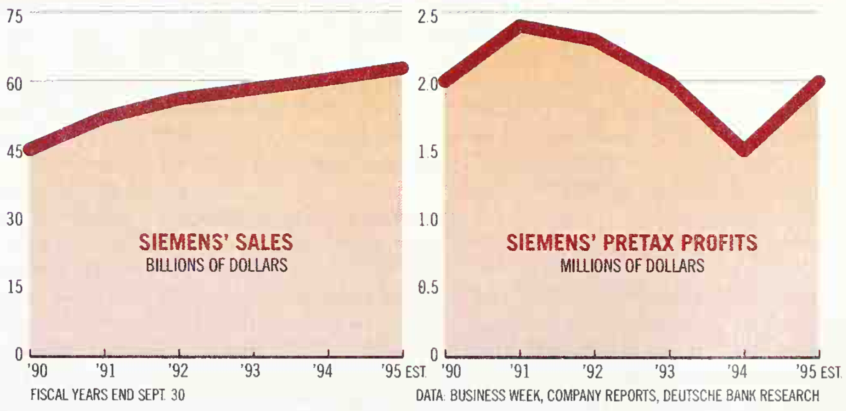
CULTURE Replaced hierarchical structure and engineering focus with new emphasis on innovation and service. Set up special teams to develop products and markets faster. Appointed new generation of managers in their 40s.

NEW STRUCTURE Slashed two layers of middle management. Gave managers in local markets free rein to cut costs and bid for projects. Required research labs to work directly with product divisions.

DOWNSIZING Slashed workforce by 7.5% through early retirement. Sold $2 billion in noncore businesses. Cut operating expenses. Plans further layoffs and asset sales.

GLOBAL REACH Setting up facilities in Asia and Eastern Europe to lower costs and reach new customers. Bought telecommunications units in U.S. and Italy. Plans further acquisitions to move more production out of Germany.

SALES ARE CLIMBING... ...WILL PROFITS FOLLOW?



DATA: BUSINESS WEEK, COMPANY REPORTS, DEUTSCHE BANK RESEARCH

PHOTOGRAPH BY PETER SCHINZLER/AGENCY ANNE HAMANN; CHARTS BY ALAN BASEDEN

FRANCE

ONLY TRAILBLAZERS NEED APPLY

Battered Alcatel has to find a reform-minded CEO–fast

The last act came abruptly. On Apr. 18, the board of French telecom giant Alcatel Alsthom replaced embattled Chief Executive Pierre Suard with a temporary chief, Marc Viénot. The board members—the elite of French industry—had little choice, since judges had ordered Suard to sever all contacts with Alcatel following a series of investigations over charges of fraud and corruption.

VIENOT: *A rare opportunity to trigger radical change*

BIG CHORES FOR ALCATEL'S NEXT CEO

A STRONGER BOARD To boost competitiveness and avoid more scandal, the company must have a supervisory board with real power over management

A NEW CHAIN OF COMMAND Alcatel should shed layers of management to improve speed and flexibility in a global marketplace

BETTER PRODUCTS The company needs new products for a market where telecom, computer, and media technologies are converging

DATA: BUSINESS WEEK

For now, all eyes are on Viénot, chairman of French bank Société Générale, which is Alcatel's largest stockholder with 9.1% of voting rights. Viénot must nominate a new CEO by July 31. Rumored candidates for the job include Jozef Cornu, an Alcatel director and a Belgian national; Serge Tchuruk, chairman of oil company Total; and Pierre Faurre, president of communications and electronics company Sagem. Viénot may actually choose two new bosses: one for telecom unit Alcatel, which represents two-thirds of the company's revenues of $35 billion, and one for the holding company, which includes the engineering and train subsidiaries.

With his choice, Viénot has a rare opportunity to trigger radical change at Alcatel (table). He and other Alcatel board members also are likely to pioneer a new, more vigilant style of corporate governance at the telecom giant. The board already has created a permanent committee of five directors that will consult with the new CEO on important issues. The committee includes ITT President Rand Araskog and Crédit Lyonnais Chairman Jean Peyrelevade. Just as important, Alcatel needs a hard charger to reverse its slumping market share and dramatic profit decline of 49% last year.

Ideally, Alcatel's new boss should have the same kind of international qualifications as 45-year-old Ron Sommer, the newly appointed CEO at Deutsche Telekom, who previously ran Sony Corp.'s European operations. The next boss must break with Suard's management style, which lacked the flexibility needed to deal with the rapid pace of change in telecom and information technology. Board members admit privately they were astonished at Suard's monarchic control, which left Alcatel with no one to step in and run the parent company. "The emperor approach to managing a global company—the *patron* who is never wrong—won't work anymore," says Nigel Deighton, research director at Gartner Group Europe.

To prevent the recurrence of scandal and bolster Alcatel's competitiveness, the board will have to reshape its relationship with the new CEO. Instead of rubber-stamping decisions as in the
subcommittees may supervise the
velopment of strategic businesses. K
ing close tabs on management's per
mance would send a serious signa
French industry. "The real prob
today in France is the board of direc
doesn't control management or rev
the accounts," says Elie Cohen, pro
sor of economics at the Institute of
litical Studies in Paris and head of
National Center for Scientific Resea

BLINDSIDED. Many analysts say a
ager recruited from outside Fran
tight coterie of technocratic elites w
have the best chance of breaking
tradition and forging a more decen
ized management model at Alcatel. "
choice is absolutely critical," says G
ner Group's Deighton.

In the worst-case scenario, Alc
could fail to find a decisive chief an
as hard and fast as former champ
IBM and Digital Equipment Corp.,
lysts warn. Just as the computer
ket shifted in
late 1980s, bl
siding smug ma
ers at IBM and
converging techn
gies are altering
telecommunicat
market radically.
cording to s
estimates, Alc
may already h
slipped last
from the wor
largest tele
equipment make
No. 3 behind
and Motorola Inc

Although Alc
is still profitable
telecom margins
rapidly eroding
deregulation s
competition. The company still
charge elevated prices for its pl
equipment in France and Germ
which remain largely closed mono
markets. Yet if Alcatel were fo
to drop its prices to prevailing r
overnight, it would lose billions of
lars, according to one market resea
er in France.

That means the changeover at Al
must come fast. The new CEO "r
only has one shot," says Trevor Brig
senior partner at BIS Strategic D
sions in Luton, England. It's u
Viénot to select a visionary who w
use French corporate tradition
guidepost but instead will help in
the future.

By Gail Edmondson in P

PLAGUE OF
ISJOINTED VENTURES

any partnerships from the Gorbachev era are at odds

n the seventh-floor corridor of Moscow's Radisson-Slavjanskaya Hotel, Paul E. Tatum hoists an electric drill and announces: "It's time." his 10 bodyguards watch, the presint of Americom Business Centers, ich owns a 40% stake in the hotel, s to work. He puffs and sweats as he zzes away at the new lock that his esnged Russian partners have installed keep him out of his office. Forty mines later, Tatum, who is earing a bulletproof vest der his dress shirt, breaks rough. But the victory is eting. The Russians soon ut off his power.

So went the latest round what is perhaps the rest of foreign joint ventres in Russia. The Run partners, an arm of the oscow city government, im the joint venture owes em about $7 million in ck rent, while Radisson otels International says tum owes $300,000 in peral debt. Tatum says room rvice and other items re part of his deal, and Russians are trying to sh him aside now that the mplex is churning out $50 llion in annual revenues. 's part of the creeping retionalization that's going throughout Russia," he ys.

W DEAL. Although his edicament is extreme and ny say he's a publicity und, Tatum may have a int. A number of joint ntures launched in the amor of the Gorbachev ars are on the rocks. at's not to say all foreign als are going down the ain. Multinationals such as Mars, ca-Cola, and Procter & Gamble are ing quite well. But they're big and t started later when Russian authores allowed foreigners other ways to t up shop.

By contrast, joint ventures were the ly options for pioneers, including ny entrepreneurs and small compaes. Most were built on high hopes, shaky laws, and naivete. By far the biggest complaint among foreigners is that once their joint venture gets running and turns a profit, the Russian side suddenly wants a controlling interest or total ownership. "Usually, the Russian partner was to bring market access, and the U.S. partner brought the capital and knowhow. But after four or five years, the Russians realize, this isn't so hard," says Peter Charow, executive director of the American Chamber of Commerce in Moscow.

EMBATTLED: *Paul Tatum and bodyguards*

POWER PLAY Once a venture turns a profit, foreigners say, Russians want a new deal

That sort of learning curve seems to be working against Seattle-based Radio Page. The paging service operator entered into a joint venture with the Moscow Public Telephone Network and another Russian company in 1992. Together, they built a system of telephone pagers in the Moscow region, with Radio Page getting a 51% stake.

At first, the partners worked well together, says Radio Page President Lawrence P. Childs. Revenues soon hit $5 million a year, and the venture expected to make $1 million this year. The arrangement started unraveling six months ago, however, when some executives on the Russian side sought control. Things got meaner three months ago when the Russians threatened to pull the critical radio frequencies if they didn't get their way. Moscow Public Telephone won't comment until a shareholders meeting in June.

Other American ventures have been plagued by all sorts of strong-arm tactics, but Tatum's case seems to be the most bizarre. He got started in 1990 with help from the late H. R. "Bob" Haldeman of Watergate fame, who worked in the hotel business following his jail term. The current local partner is the Moscow City Property Committee, which manages and privatizes state-owned assets in the capital.

Tatum had problems from the start, but things got a lot worse last summer when his Russian partner tried to evict him forcibly from the Radisson-Slavjanskaya—where President Clinton stayed during the 1994 summit. The main activity of Tatum's company, which is based in Irvine, Calif., is the Moscow venture. It manages several floors of offices in the hotel.

"UNWORKABLE." Tatum claims that the Russian partner and Radisson are scheming to dump Americom so the hotel can be sold off. The Russians do have a plan to sell the hotel for $60 million, with Radisson retaining the management contract. Umar Dzhabrailov, the venture's first deputy general director, says the matter could be cleared up if Tatum's Americom company pays the debt Dzhabrailov says it owes.

Meanwhile, Radisson has prevailed in a lawsuit in Minnesota to dissolve the joint venture, and Tatum has counterattacked by seeking arbitration in Sweden. Says John Norlander, president of the Minneapolis-based Radisson Hotel Corp.: "Mr. Tatum has made the partnership between Radisson and Americom unworkable and has put the joint venture at risk."

A lot of this controversy over joint ventures will probably die down as the deals themselves become less common. But Tatum's experience suggests that the Russian market is still only for the thick-skinned.

By Peter Galuszka in Moscow, with Susan Chandler in Chicago

BILL SWERSEY/GAMMA-LIAISON

CHINA

TAKE A NAP. READ A BOOK. IT'S THE SHANGHAI BOURSE

Half-baked reforms are stalling China's markets and economy

When the Chinese government ordered Shanghai's go-go stock exchange to suspend new listings of "A shares" last July, even loyal investors applauded. A flood of new issues and collapsing interest in emerging markets had sent the Shanghai A-share index crashing by two-thirds since January, 1994. The index has since regained about half of its loss. But Shanghai is still waiting for Beijing's green light for new issues. Volume is so limp that bored brokers sleep or read newspapers.

Their lethargy reflects the policy gridlock that has stalled many of China's once-ambitious financial reforms. As the Communist Party braces for transition after the death of Deng Xiaoping, leaders worry that dramatic economic actions might fuel social instability or inflation, now raging at 24%. Such measures as selling or closing money-losing enterprises and setting up modern securities regulation are stuck on Beijing's back burner. And no action is expected soon. Says Carl E. Walter, the director of CS First Boston's Beijing office: "In terms of deals, the next six months are dead."

STOCK TRADERS: *The state fears losing control*

ERICA LANSNER/BLACK STAR

NO TRADE COPS. Chinese technocrats concede that the drive to establish a modern market economy has gotten sidetracked by politics and bureaucratic turf battles. Many of the financial reforms launched so far, such as the new stock market and the first attempts at a modern banking system, remain incomplete or badly flawed. And because most of China's financial problems are intertwined with its state-owned industries, which Beijing stubbornly refuses to privatize, planners now say it may take decades rather than years before China will have an efficient market economy.

Many Asian countries have a long way to go before their financial markets are as open as Western investors would like (page 58). But the price of half-baked reform has been painfully visible in China. Take the bond market. Last year, the treasury placed $12 billion in bonds—triple the 1993 level. This year, it plans to raise nearly $18 billion. Beijing has even allowed futures trading in the bonds but hasn't set up a system to police such trading.

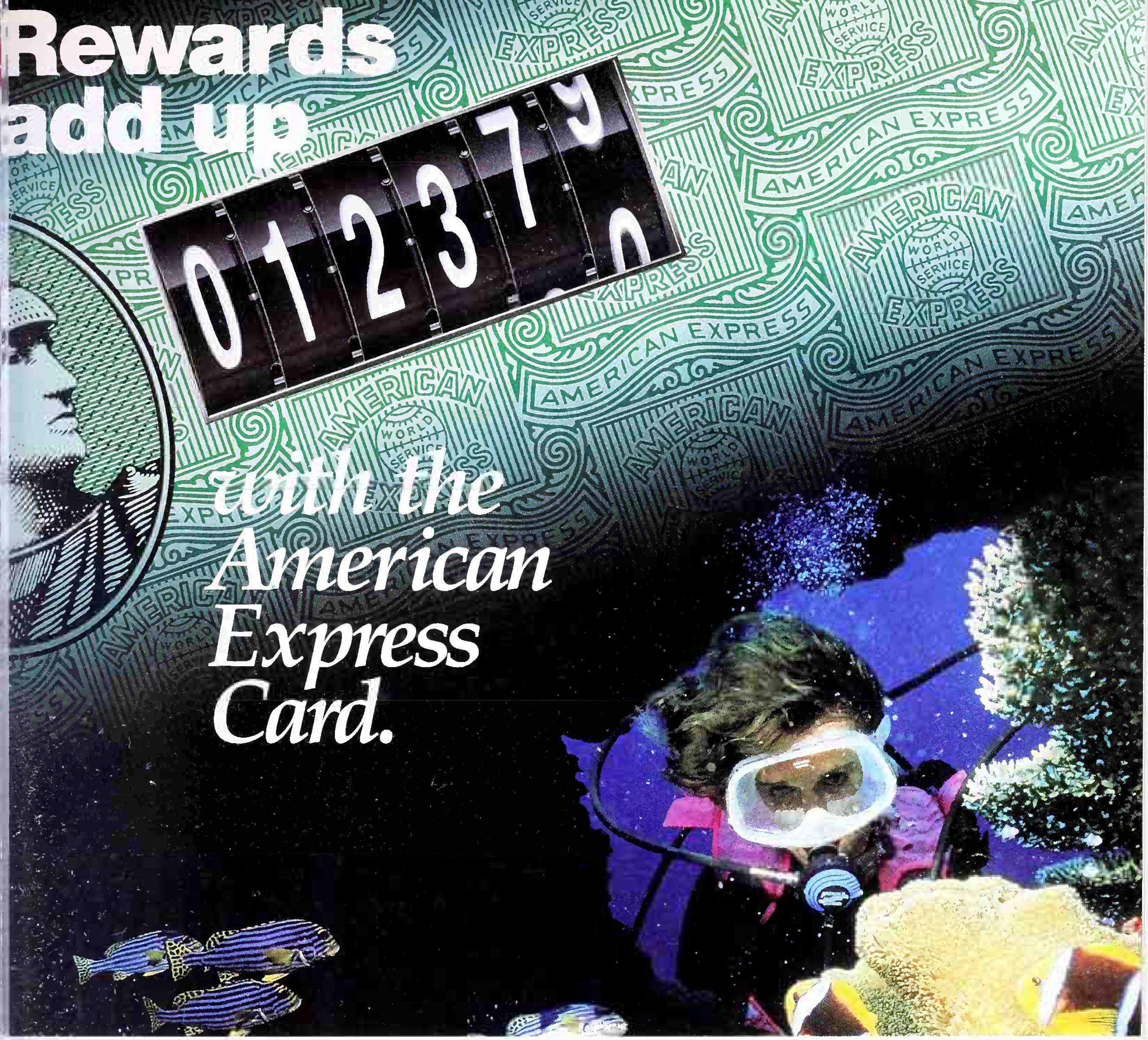
> "Everyone knows we are a tiger without teeth," says a stock-exchange regulator

So in a massive price-rigging scher
gone awry, China's largest brokerag
Shanghai International Securities, b
came technically insolvent on Feb.
when it lost more than $100 milli
speculating in bond futures. Proposals
strengthen supervision of bond tradi
remain bogged down in the bureaucra

The poor oversight is even more gla
ing in the stock market. Even thou
291 companies' shares a
traded on exchanges in Shan
hai and Shenzhen, Beijing h
dragged its feet in passing
securities law, first drafted
1992. More than a dozen d
ferent government bodi
each fighting for control, ha
a hand in supervising diffe
ent aspects of the market. T
fledgling China Securities Re
ulatory Commission is charg
with policing such practices
insider trading, misuse
stockholder funds, and fal
disclosure. But, says a t
CSRC official, "everyone kno
we are a tiger without teet
The reason: Local gover
ments still have enough poli
cal clout to block actio
against companies in th
cities.

UNPAID LOANS. The rece
case of Tsingdao Brewery
has underscored the regulat
weaknesses. Billed as one
China's best-managed "r
chips," the beermaker rais
$200 million in 1993 rights
sues in China and Hong Kon
Rather than spend it all on
new brewery, as promised
its prospectus, Tsingdao r
cently disclosed that it lent $
million of the proceeds to ot
er mainland companies. Now the co
pany claims it needs $180 million mo
to complete the brewery. Tsingdao
sists the loans will be repaid, and oth
than briefly suspending trading in
shares, neither Hong Kong nor Beiji
will punish the brewer.

Such misuses of money reinforce B
jing's fear that private capital marke
undermine its fight against inflatio
With its crude monetary system, t
only way China can cool the economy
to clamp down on credit from the sta
owned banks. The government is relu
tant to liberalize capital markets b
cause it loses control over ho
companies and financial institutions ra
money. And with weak supervisio
companies tend to pump the proceeds
stock issues into property speculati



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and other dubious investments. Rather than improve the markets' behavior by regulating them, Beijing's solution was to halt new stock flotations and corporate debt issues.

But closing off access to private money markets means 100,000 state enterprises, half of which lose money, remain dependent on the banks. And the bad debts are piling up. Despite years of management reforms and massive capital injections, the amount of "triangular debt"—money that state enterprises owe to each other—is larger than ever, estimated at up to $60 billion. Concedes Chinese Academy of Social Sciences economist Wang Guogang: "We haven't been able to solve the basic problem: The enterprises aren't profitable."

The debt burden is threatening another pillar of China's market reforms: turning four state-owned banks into commercial institutions. If the banks wrote off their delinquent loans, they would be insolvent. In addition, they must keep the state enterprises afloat with fresh funds. For the future, "banks still will have to make loans they know they will never get back," admits Feng Bing, deputy secretary-general of the State Commission for Restructuring the Economic System.

With no painless way to fix the st
industrial sector, which employs 100 n
lion, China's reform effort seems to h
hit a dead end. But some analysts thi
Beijing will be forced to take dras
action within three to five years. "
vatization will be the only option a
all the other strategies have faile
says one mainland economist. That
have to wait until the post-Deng le
ership is securely in place. Until th
brokers at the Shanghai bourse may
well make sure they have comforta
seats and lots of reading material.

By Pete Engardio in Beijing, w
Joyce Barnathan in Shanghai

COMMENTARY

By Pete Engardio

ASIA CAN'T AFFORD TO SIDESTEP FINANCIAL REFORM

Before last fall's Asia-Pacific Economic Cooperation forum in Jakarta, Clinton Administration officials had a compelling argument for developing countries wary of joining an ambitious free-trade pact: Look at Mexico—where exports and foreign investment were booming because of the North American Free Trade Agreement. But the Mexico analogy came back to haunt U.S. Treasury Secretary Robert E. Rubin in mid-April when the APEC finance ministers convened again in Bali.

In a year when financial markets from Indonesia to China have been walloped by currency fluctuations and derivative-trading debacles, Rubin's proposals to further open Asia's capital markets got little response. Although the Asian ministers signed a bland statement citing the need for "broad, deep capital markets," Rubin admitted that "many of them feel they need to do it in a deliberate and phased fashion."

"SCARCE SAVINGS." Asian technocrats can hardly be blamed for feeling skeptical about advice from Washington on how to manage their economies. Over the past decade, East Asian Tigers such as Malaysia, Singapore, Taiwan, and Thailand have produced spectacular growth with low inflation, balanced budgets, and enviable savings rates. U.S. economic performance hasn't come close.

Still, many of Rubin's suggestions deserve to move higher on Asia's agenda. Some of those fixes include greater disclosure of financial data, better accounting standards, and policing against insider trading. In its just-released 261-page report on the region's outlook, the Asian Development Bank warned that heavy restrictions on capital flows cause many Asian nations to "squander scarce savings on unproductive investments." What's more, the report noted, accounting standards, disclosure, and investor protection in cases of default remain woefully weak in such countries as India, Indonesia, South Korea, and Taiwan.

RUBIN IN NEW DELHI: *Pushing deregulation*

CRAIG FUJII—AP WIDE WORLD

Few Asian nations can afford to ignore the structural flaws in their financial systems. Competition is intensifying for the estimated $1 trillion needed over the next five years to finance infrastructure. Even though the region is full of companies boasting 20% to 30% annual earnings growth, Western investors are unlikely to regain their excitement over Asia's emerging markets as long as they are perceived as high-risk bets.

Fortunately, aside from China, most Asian countries are moving in the right direction. Take India, where critics of free-market reforms had used the Mexico debacle to call for a go-slow approach. In January, the country lifted a 38-year ban on stock options, and it is now expected to reintroduce margin trading soon. A new computerized stock-trading system is also in the works, which will make trading less opaque. Regulators have taken action to beef up oversight, after a shoe company in March failed to meet a margin call while trading in its own stock and wound up $6 million in default. The incident forced the Bombay exchange to close for three days.

Thailand is pushing ahead with a five-year blueprint to open up its financial markets, even though foreign fund managers yanked billions out of the stock market in 1993 and sparked a run on the Thai baht in January. In addition, Singapore is improving its oversight of futures trading, in the wake of the $1 billion Barings Securities fiasco in March.

To Washington's free-market crusaders, the pace may seem like it's in slow motion. But Asian nations that stay the course now are likely to attract a lot more foreign capital over the long haul.

Hong Kong Correspondent Engardio covers Southeast Asian markets.

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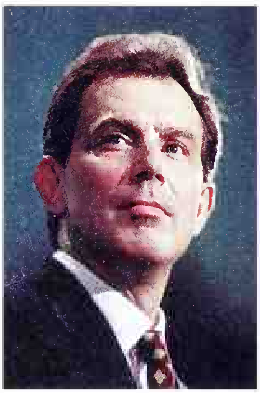
VHY BRITAIN'S LABORITES ARE FRANTICALLY WOOING BUSINESS

n Apr. 29, Britain's Labor Party is likely to vote to quash the controversial clause in its constitution calling for the "common ownership of the means of production, tribution, and exchange." Expunging this bit of Marxist gma may not seem like a big deal, but it will be a landmark tory for Labor's leader, Tony Blair. The telegenic 42-year- has been struggling for years to drag his party back o Britain's mainstream.

Few outside Britain realize it, but Blair has already taken ge strides in this direction. One sign of his ogress is Labor's 30-point lead in the polls over me Minister John Major's Conservatives. The ventional wisdom is that Blair will be Britain's xt Premier.



MAINSTREAMER BLAIR

ANDREW WIARD/NETWORK

NING RECOVERY. But Blair's big lead could ckly evaporate if he doesn't keep his rehabili- ion campaign on track. His next big task is to sh out the specifics of what a Labor govern- nt would do, especially on the economy. His icies could damage an economic recovery al- dy showing signs of waning. They could also ect billions of dollars in direct investment that itain has grown accustomed to receiving annu- from the U.S., Japan, Korea, and others dur- 16 years of Conservative rule. Because of uncertainty, the markets have already im- sed costly political-risk premiums on the pound, equity ces, and government-bond yields.

Blair's strategy is to win over white-collar office workers l suburban homeowners, Britain's fastest-growing voting c. These people are weary of Tory rule, but they are also ptical of Labor. To gain the credibility he needs on the nomy, Blair is now frantically wooing business leaders. He l his youthful aides, dubbed Blairheads, have dined with dia magnate Rupert Murdoch, whose newspapers helped eat Labor in 1992. They have also met privately with a up of top bankers, made the rounds among fund managers in Edinburgh, and given numerous after-dinner speeches to local business groups.

But the charm offensive has had limited success. "I don't know what Labor stands for," says Martin Taylor, CEO of Barclays Bank PLC. Lord Hanson, chairman of conglomerate Hanson PLC, is more explicit. "Remember what happened to inflation and the pound the last time we had a Labor government"—in 1974-79, he warns.

So far, Blair's economic agenda is vague. For new tax revenue, he would look to "the undeserving rich." He's offering some costly new benefit programs but doesn't say how he would pay for them. Blair's people are in regular contact with President Clinton's political consultants James Carville and Paul E. Begala. Like Clinton, Blair vows to make his country more competitive in the world economy. But he's short on specifics.

Business is already concerned about some of Blair's plans. He pledges that one of the first acts of a Labor government will be to implement the "social chapter," the part of the European Union treaty that spells out workers' rights and from which Major negotiated an opt-out in 1991. Executives worry that rigid, costly labor rules will be imposed on them. Blair also supports a minimum wage, which Britain now lacks.

City of London insiders fear that Labor could put a damper on the financial industry that now employs 2.5 million people and accounts for 20% of Britain's economy. The fear is that Labor's financial guru, Alastair Darling, will use the collapse of Barings PLC and other scandals as an excuse to push for tighter regulation of everything from banking and insurance to executive pay.

Blair can't afford to inspire such doubts because they will turn off voters he is targeting. His challenge is to convince voters he will create and protect jobs, not wreck the economy.

By Paula Dwyer in London

GLOBAL WRAPUP

APAN'S DR. NO

Shintaro Ishihara, the ultranational- st politician who gained global noto- iety for co-authoring *The Japan 'hat Can Say "No"* and *The Asia 'hat Can Say "No,"* now has said No" to politics. On Apr. 14, the flam- oyant former novelist and yachts- ian, 62, unexpectedly announced his nmediate resignation from the Iouse of Representatives, where he serving his eighth term. He didn't xplain the timing of his decision but eclared that he feels "guilty and ashamed" about the state of Japanese politics, which he said is filled with parties and lawmakers who pursue their own "mean, selfish aims."

MUSIC VIDEOS FOR ASIA

▶ Music powerhouse Polygram and Viacom's MTV Networks are joining forces to challenge the hold Rupert Murdoch's Star TV has on the booming Asian youth market. On Apr. 21, the 50-50 partnership will launch a Mandarin Chinese MTV channel that will initially target cable viewers in Taiwan. They'll follow on May 5 with an English MTV venture that will focus on India. Polygram CEO Alain Levy says Asia is the hottest market for the company's music and discs, accounting for more than 20% of its $5 billion world sales and growing at a double-digit clip.

MTV CEO Thomas E. Freston says the Asian satellite and cable market is expected to grow explosively over the next two decades. But he cautions that the venture, like other Asian TV operations, expects to lose money for a few years because the market isn't large enough yet to cover costs.

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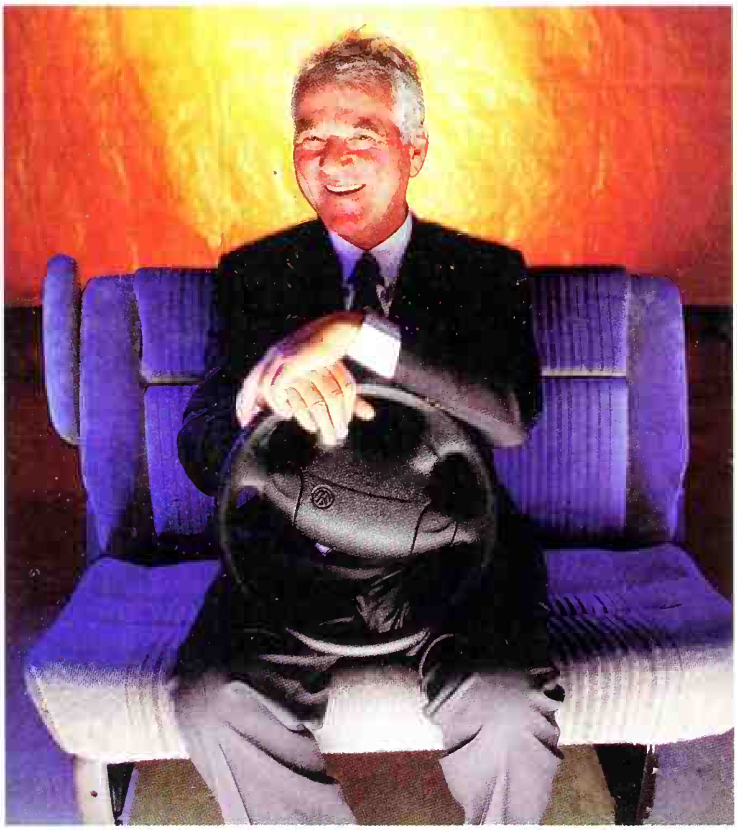


STRONACH: *Generous incentives keep Magna in the passing lane*

CHRIS TRENT

The hardest part of breaking into the European market, says Frank Stronach, irman of Canadian auto- 'ts giant Magna Inter- ional Inc., is attracting management. So he's ering a lure unheard-of central Europe: homes a luxurious golf-course 'elopment, built on the unds of a 400-year-old tle in Oberwaltersdorf, stria. The castle, which onach bought last year, iow part of Magna's Eu- ean headquarters. When residences are finished, nagers "will be able to e home for lunch," mises Robert Gruber, gna's European finance ector.

t's just the latest exam- of how Stronach has d incentives to build the iness he founded in a ted garage near Toronto one of North Ameri- fastest-growing compa- s. Over the past decade, gna, which makes every- ng from air bags to bumpers, has wn at a compound clip of 21% a year. st year—its best—sales soared 37%, to billion, while profits jumped 67%, to 6 million. Stronach took home $28 lion, counting gains from exercising ions—the highest earnings ever by a lic-company executive in Canada.

TNERS IN CHROME. Magna's great ength is the entrepreneurial culture t Stronach, 62, has created. "Frank s into empowerment long before the iness schools had ever heard of it," s Peter C. Godsoe, CEO of Bank of va Scotia, which lent him $1,000 to nch the business in 1957. By offering ployees huge financial incentives, onach has made profit-oriented innova- one of Magna's key products. Since 1993, the company "has given us 148 different proposals for cutting costs," marvels Thomas T. Stallkamp, Chrysler Corp.'s powerful purchasing chief, who says the ideas could save more than $93 million a year. No wonder he expects Magna to remain his No. 1 supplier.

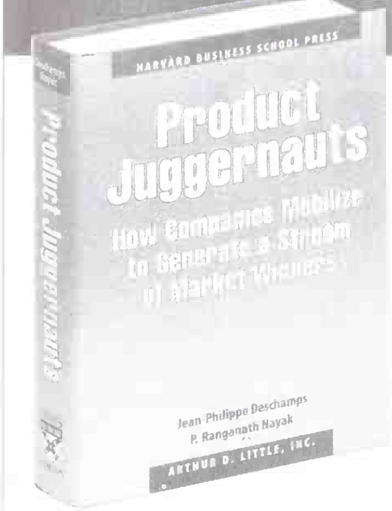
Skeptics note that Stronach has made his share of mistakes. The worst came in the late 1980s when, distracted by an unsuccessful run for Parliament, he let Magna's borrowing get out of hand. Debt soared over $700 million. Then auto sales plunged. It looked like Stronach, who controls 73.4% of voting stock, would lose everything. Instead, he pulled off what Godsoe calls "one of the greatest turnarounds of the modern era."

Magna's near-death experience reenergized Stronach. In 1994, he moved his principal residence to Switzerland—not least because its top tax rate is 30%, vs. Ontario's 53%. There, he logs 14-hour days directing Magna's European expansion. "We still only have 1% of the global market. There's no reason why we shouldn't have 10%," he says.

As Stronach tells it, his drive and his entrepreneurial philosophy stem from growing up in war-ravaged Austria. "If you've never been hungry," he says, "you don't know what it means." When he was 14, his mother sent him to train as a tool-and-die maker. Even then, he dreamed of starting his own business, recalls boyhood friend Franz Deutsch, now chairman of Austrian ski-equipment maker Tyrolia. At 21, with Europe still on its knees, Stronach emigrated to Canada, arriving with one suitcase and $200.

Within six months of joining a small tool shop near Toronto, he had an experience he says shaped his management approach. The owner, praising his work, said he would make him a partner. "At first, I felt pretty good," Stronach recalls. But the owner "kept dragging his feet," so Stronach quit and set up his own shop in a garage. Within two years, he employed 20 workers. Then his foreman asked to become a partner. Thinking it over, Stronach reasoned that if the foreman left, he'd have to do all the work. "The next morning, I said, 'Why don't we open up a new factory and give you an ownership in it?'"

That formula, replicated time and again, carried Magna to revenues of $1.3 billion by 1990. But as the company grew



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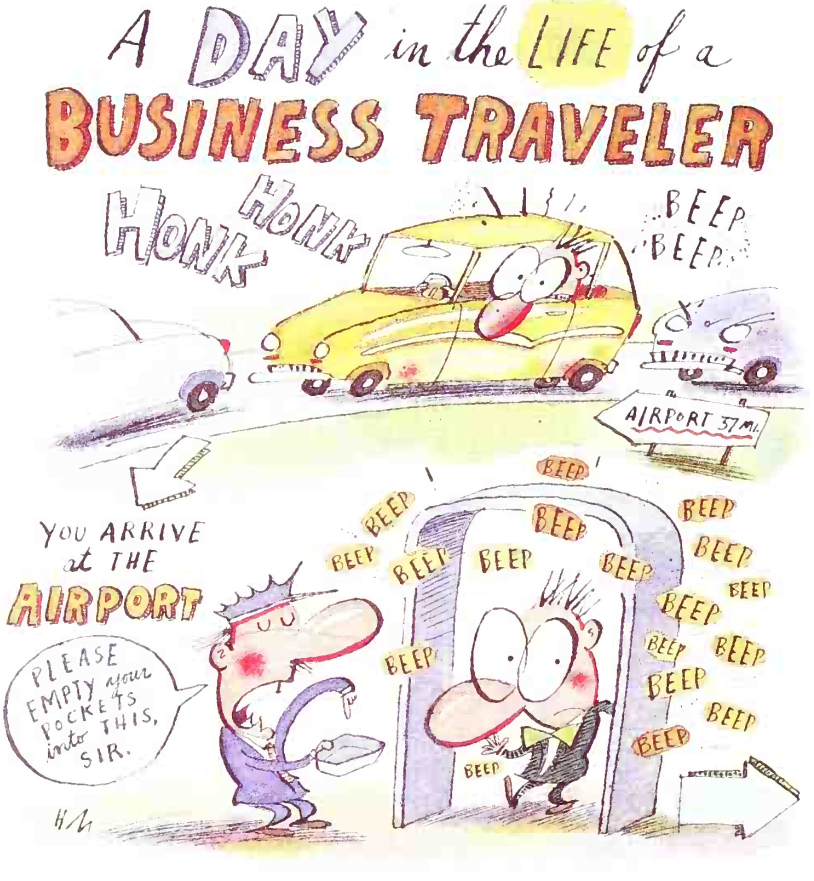

People

to 100 independently operated facto “we ignored the budgeting proces Stronach admits. In the late 1980s, wh he focused on politics, plant mana piled on debt to grow. Stronach, a L al, was trounced in 1988's Conserva landslide. And in 1990, Magna lost million. The stock fell to less than 2 a high of more than 25, and Magna lated some loan covenants.

By early 1990, some of Magna's b ers wanted to put someone else charge, says then-board member Ja McCallum. Reacting with rage, St ach convinced them he “would do w ever it takes,” says Godsoe. Wi months, he jettisoned 36 factories, headquarters staff by more than and instituted a plan to slash debt. also imposed discipline and plann Now, factory managers must clear m spending with senior executives, approve only projects that fit Magna's strategic plan. All debt has erased, and new debt is *verboten*. Ma Godsoe says, has “a rock-solid bala sheet and lots of capital for expansi

Even with the new constraints, M na remains “far more entrepreneu than most North American compan says Chrysler's Stallkamp. Each of it plants is a separate profit center, managers enjoy almost total con plus a giant incentive: 3% of gross p its. Magna pays managers an avera $60,000 a year, but bonuses can $500,000, which has made “many them millionaires,” Stronach says.

“FRANK'S WAY.” It's a tactic that h talent and fuels dedication. Ross MacLean, a 39-year-old mechanical e neer, left General Motors Corp. for M na because “I saw the opportunity make a lot of money.” Since taking mand in 1991 of Polycon Industrie joint venture with Ford Motor Co. was losing $12 million a year, MacL has poured 70 hours a week into re citation efforts. Last year, Poly earned $6 million on sales of about million. MacLean says he'll be abl “comfortably retire in 10 years years sooner than I would have at

But however much autonomy St ach grants plant managers, at headq ters he's known as difficult and for ding. “It's Frank's way or no way,” one of many executives who have The latest casualty, John Doddridge, signed last October after two years CEO. Stronach admits that Doddri found “being CEO doesn't mean much at Magna.” New CEO Do Walker is Stronach's son-in-law.

Stronach's current strategy is make Magna a leader in producing t parts but systems—finished seats, , or outer body shells. Analyst Frede- < K. Larkin of Bunting Warburg Inc. nks the tactic could boost Magna's rth American market share by 75%, an average $275 per car, by 2000. il, that big pothole just ahead—the mp in North American auto sales— , sent Magna's stock, like other auto cks, plunging. It's at 37 on the New ·k Stock Exchange, down about a rd from last year's high. That's a ·oss overreaction," says Philip K. cke of Prudential Securities Inc., who ects Magna to keep growing, albeit re slowly, through any downturn.

Vith Walker in charge in Toronto, onach is focusing on Europe, where gna is a relative newcomer. But over years, it has hired some 500 Europe- managers and technicians, so it can ve fast now. Magna has 20 European its, generating sales of more than $700 lion. Finance head Gruber predicts t will double in three to five years.

WHAT'S A MAGNA?

ANTS	86, in 10 countries
MPLOYEES	21,000
94 SALES	$2.5 billion
94 EARNINGS	$166 million
RIMARY STOCK MARKET	NYSE
EY CUSTOMERS	Chrysler, General otors, Ford, Volkswagen, BMW
EY PRODUCTS	Seating systems, door stems, mirrors, air bags, plastic mper systems, metal body parts

DATA: COMPANY REPORTS

3ut even after 1990's crisis, Stronach t all business. Wherever he is, he cks constantly on his "business of ," horse racing. He bought his first se in the early 1960s. In the late 0s, he began spending heavily, aiming nake his stable No. 1 in North Amer- His Beechwood Farm is already s in Canada, and since 1989, he has ght three farms in Kentucky. Some althy owners "check their brains at airport" when visiting their farms, s Ray Paulick, editor-in-chief of *The od Horse*, "but Stronach is very in- se and a lot more hands-on than oth- owners." In 1994, his horses won $3.7 lion in North America, ranking him among big owners. Sid Fernando, od-stock editor of the *Daily Racing m*, says he has "a very good shot at oming No. 1." One thing's for sure: won't rest till he reaches that goal.

By William C. Symonds in Toronto, h Eric Frey in Vienna

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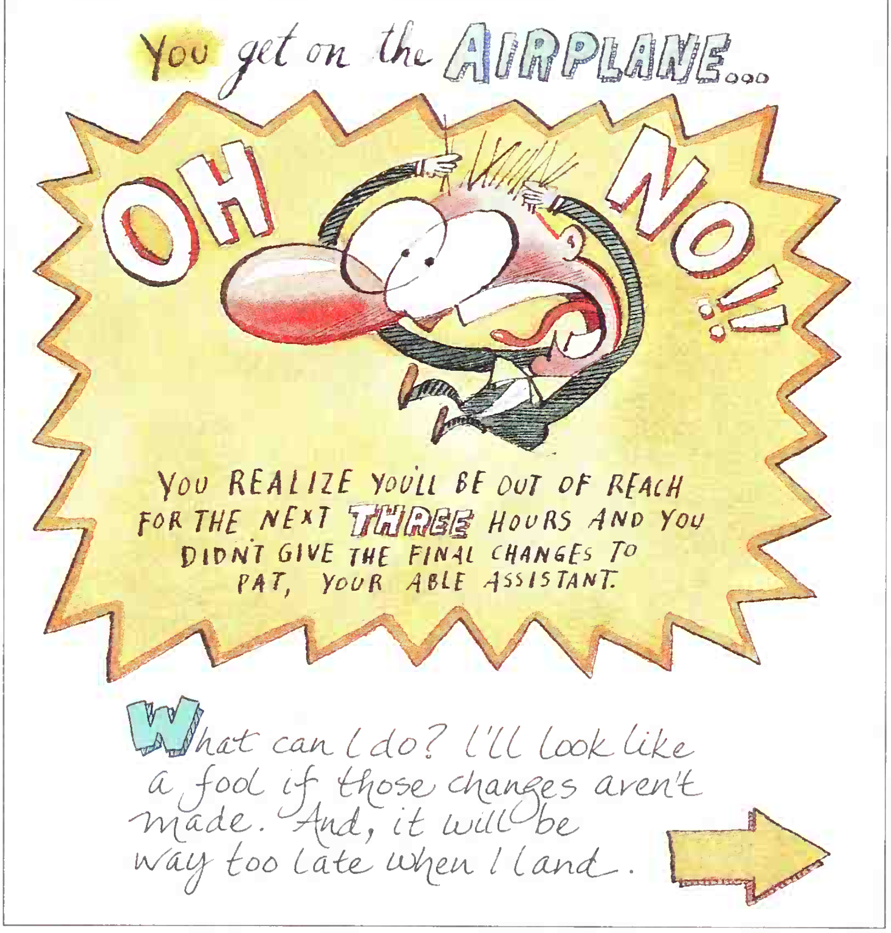
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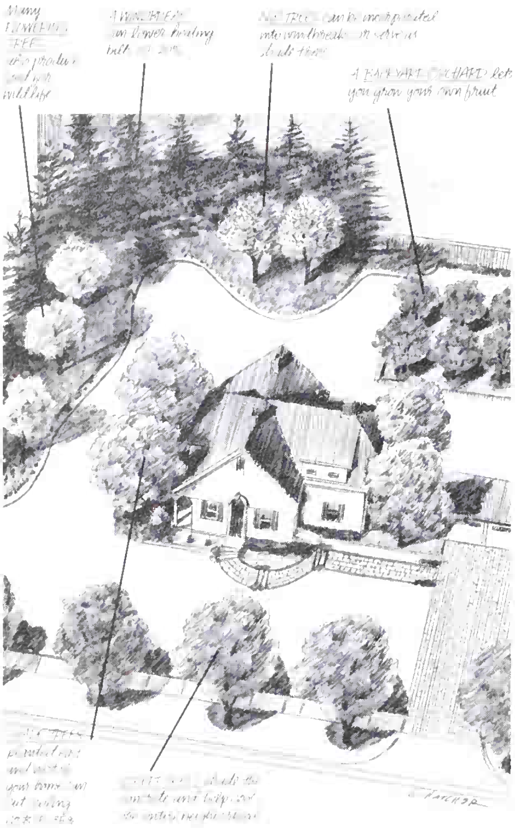
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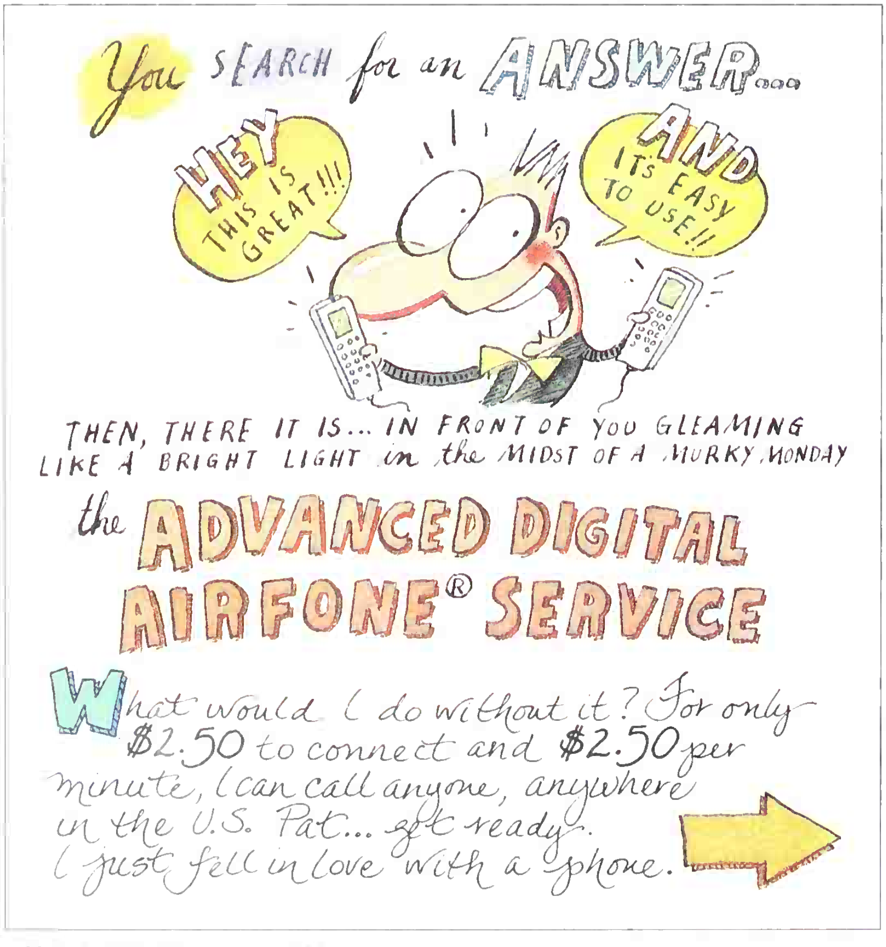
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>
> — JOAN SPERO

ECONOMIC DIPLOMACY

PEDDLERS IN PINSTRIPES

At the new State Dept., trad is taking center stage

Frank G. Wisner, U.S. Ambassad to India, had a crisis on his han Authorities in the state of Ma rashtra were threatening to cance $900 million electric-power-plant c tract with three American compan in March. Although his expertise is litical security, the career foreign serv officer had to play commercial brok “At every step of the way, Frank h helped keep the project on track,” sa R. Michael Gadbaw, a vice-president General Electric Co., which is supply power-generation equipment along w Bechtel Group Inc. and Enron Corp.

Welcome to the New World of Di macy. The State Dept. still calls its f eign outposts “embassies,” but it's tre ing them increasingly like a chain business-promotion centers called F ports ‘R’ Us. Ambassadors long stee in arms-control arcana and politi problem-solving are now unabashed p dlers in pinstripes, vigorously lobby local officials on behalf of Corpor America. “State deserves high ma for its engagement,” says Leslie G. M

.L, SELL, SELL: *The new mind-set State is largely Spero's work*

iw, CEO of Fluor Corp. "The depth of olvement and the level of coordina- ı is better than what we've seen m previous Administrations."

t's about time. Europeans and the ›anese have never been shy about ıg a little diplomatic arm-twisting to ı deals. State's economic diplomacy ve is part of a coordinated, high-pro- Clinton Administration campaign to ›st U.S. business overseas. The Com- rce Dept. has the lead on commercial rocacy. While State's diplomats help se deals, their chief contribution is push for structural changes in for- n markets that improve the climate U.S. business. A recent example is a v State-led economic partnership with ia aimed at eliminating barriers to its ;e infrastructure market.

AMATIC SHIFT. The business-friendly phasis is largely the work of Joan Spero, Under Secretary for Econom- Business & Agricultural Affairs. The mer American Express Co. execu- e vice-president is expanding on a me launched by the Bush Adminis- tion, and her modest success to date ects the dramatic extent to which focus of foreign policy has shifted ce the end of the cold war. "It's no ger just about war and peace," she s. "We have new constituencies, and iness is one of them."

Spero argues that boosting trade and estment buttresses U.S. strategic ıls by promoting stability in hot spots

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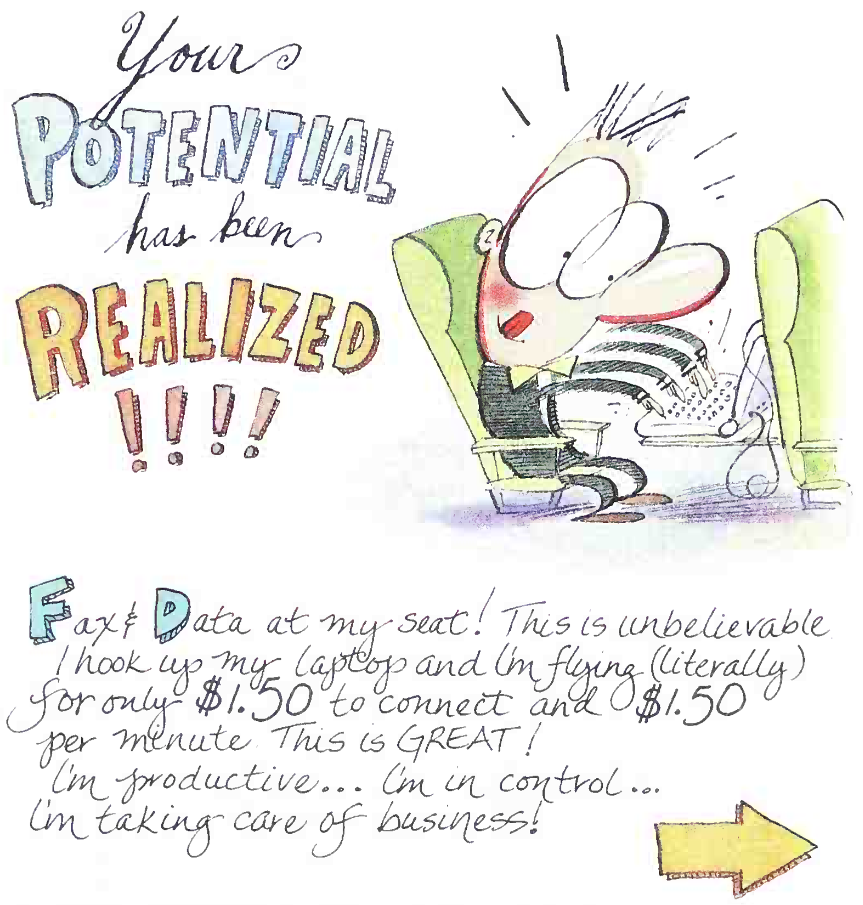

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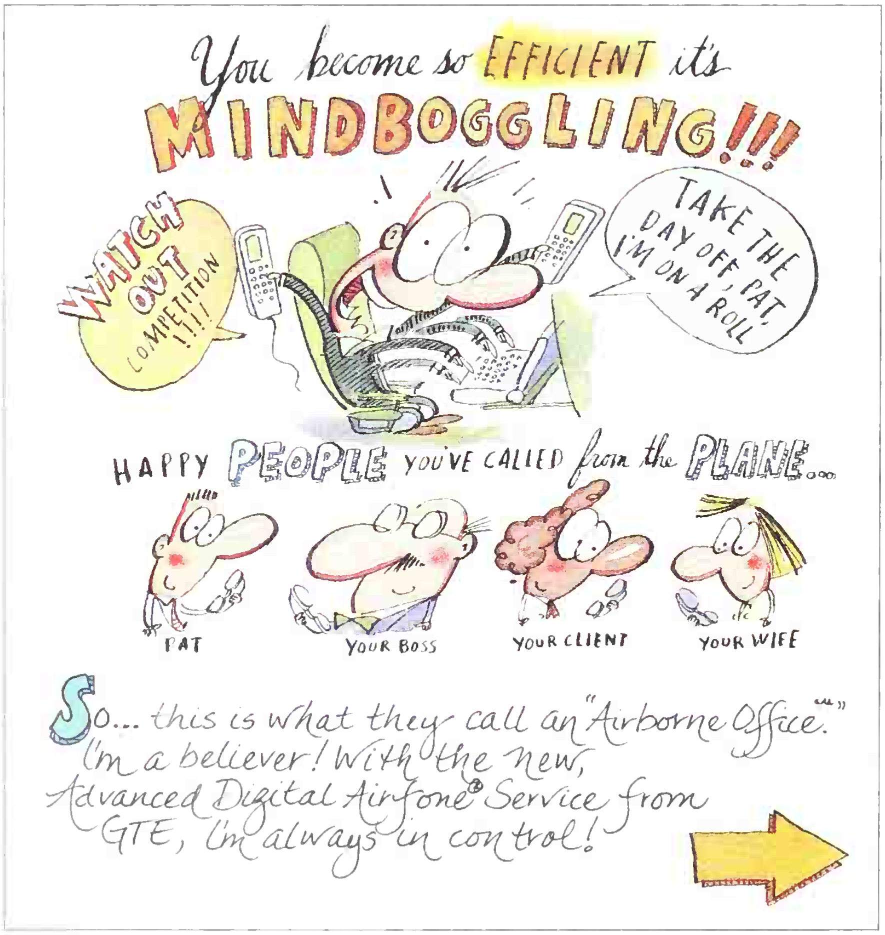
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such as the Middle East, Russia, a
Haiti. "Unless the Palestinians feel th
lives are improving, they're not going
support the peace process," she sa
With foreign aid dwindling, Washing
must rely more on the private sector
ensure U.S. influence around the wo
And a few successes helping busin
win orders and create jobs could sta
off GOP budget-cutters' knives.

GE's experience in India, and simi
tales from dozens of grateful executi
of companies such as American Inter
tional Group, Texas Instruments,
McDonnell Douglas, shows that Fog
Bottom's probusiness campaign is st
ing to pay off. More foreign serv
officers are studying economics and g
ting pointers on trade-negotiating t
tics. The Secretary of State now
stows a $5,000 annual award on the
who does the most to advance U
commercial interests. "You get brow
points if a letter comes in from a c
saying, 'We couldn't have done it wi
out you,'" says one diplomat.

"DEAD END." But tradition dies ha
Unlike the Commerce Dept., wh
No. 1 client is U.S. business, State m
balance security, political, and econo
interests. Too often, though, busine
views aren't sought when policy ha
make decisions with major econo
consequences. Case in point: Stat
push last year to link renewal of Chi
most-favored-nation trade status to i
provements in its human-rights reco
During the MFN debate, Winston Lo
the Assistant Secretary for East A
and architect of the policy, met of
with rights activists but shunted b
ness representatives off to a lower-ra
ing aide. "It was a dead end, so we q
going," gripes an industry official.

More recently, State policy wo
didn't bother to consult with ener
company representatives before Pr
dent Clinton's Mar. 15 executive or
tightening the trade embargo on Ir
Only two days after the policy was
nounced did the industry get a cha
to make its counterargument: The m
will have little impact on Tehran
cause European players will rush to
orders U.S. companies must forfeit.

Spero is trying to bring business
the table and change State's mind-s
In January, she recruited another f
mer AmEx exec, David Ruth, to
State's liaison to the business comn
nity. She has launched business advis
panels to provide State with practi
advice on foreign economic initiativ
such as how to pry open Asian m
kets. Spero is also making sure top p
icymakers, especially Secretary of St

ırren M. Christopher, meet regularly :h CEOs. On Apr. 6, for example, ristopher discussed further loosening itrols on high-tech exports with Mi- ıel C. Armstrong of Hughes Aircraft and Michael J. Jordan of Westing- ıse Electric Co.

Γhe most encouraging changes for ;iness are occurring in State's global work of field offices. When Malaysia ided to buy Russian MiG fighter jets, ensive lobbying by U.S. Ambassa- · John Stern Wolf persuaded the de- se minister in 1993 to reopen the ding to American suppliers. McDon- l Douglas Corp. officials credit Wolf h helping the St. Louis company land 300 million order from Kuala Lumpur eight F/A-18 jets.

Ξven in the home office, there are ıs of change. In March, Deputy Sec- ary of State Strobe Talbott followed

In the New World Order, national ;ecurity is defined in economic terms

nmerce Secretary Ronald H. Brown's l by taking a planeload of American cutives on a two-day trade-and-in- tment mission to Haiti. And officials ɜconomic agencies say State has be- ıe more cooperative on financial in- tives, such as lobbying foreign capi- ; to back a regional development k for the Middle East.

CKERS. Still, many Washington trade ds remain skeptical that State will nge fundamentally. While Talbott red his plane with a posse of CEOs, didn't schmooze with them. "They : don't get it," snickers one Com- ·ce Dept. official of State's efforts at ıomic diplomacy. And political offi- ; still tend to dominate the regional eaus that are the heart of the de- :ment's policymaking apparatus. "The ıitution can't change its spots just ause the people at the top call for nge," says Greg Mastel, an analyst ı the Economic Strategy Institute.

ʒut in the New World Order, nation- ecurity increasingly is being defined conomic terms. Like it or not, Amer- ; diplomatic corps will have to adjust ı the times. Spero and her team of ;triped peddlers are trying to make ɜ their realpolitik-minded colleagues the message: Today, the driving :e in foreign policy is econopolitik.

ʒy Amy Borrus in Washington, with c Schine in Los Angeles and Sharon shavi in New Delhi

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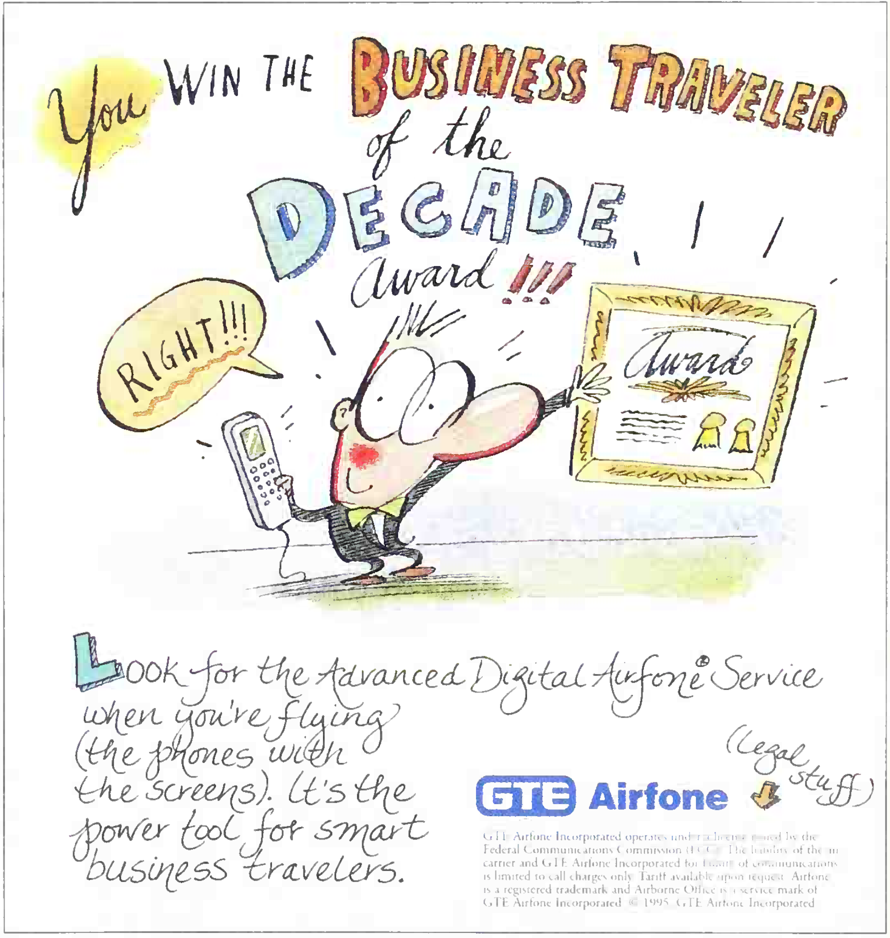
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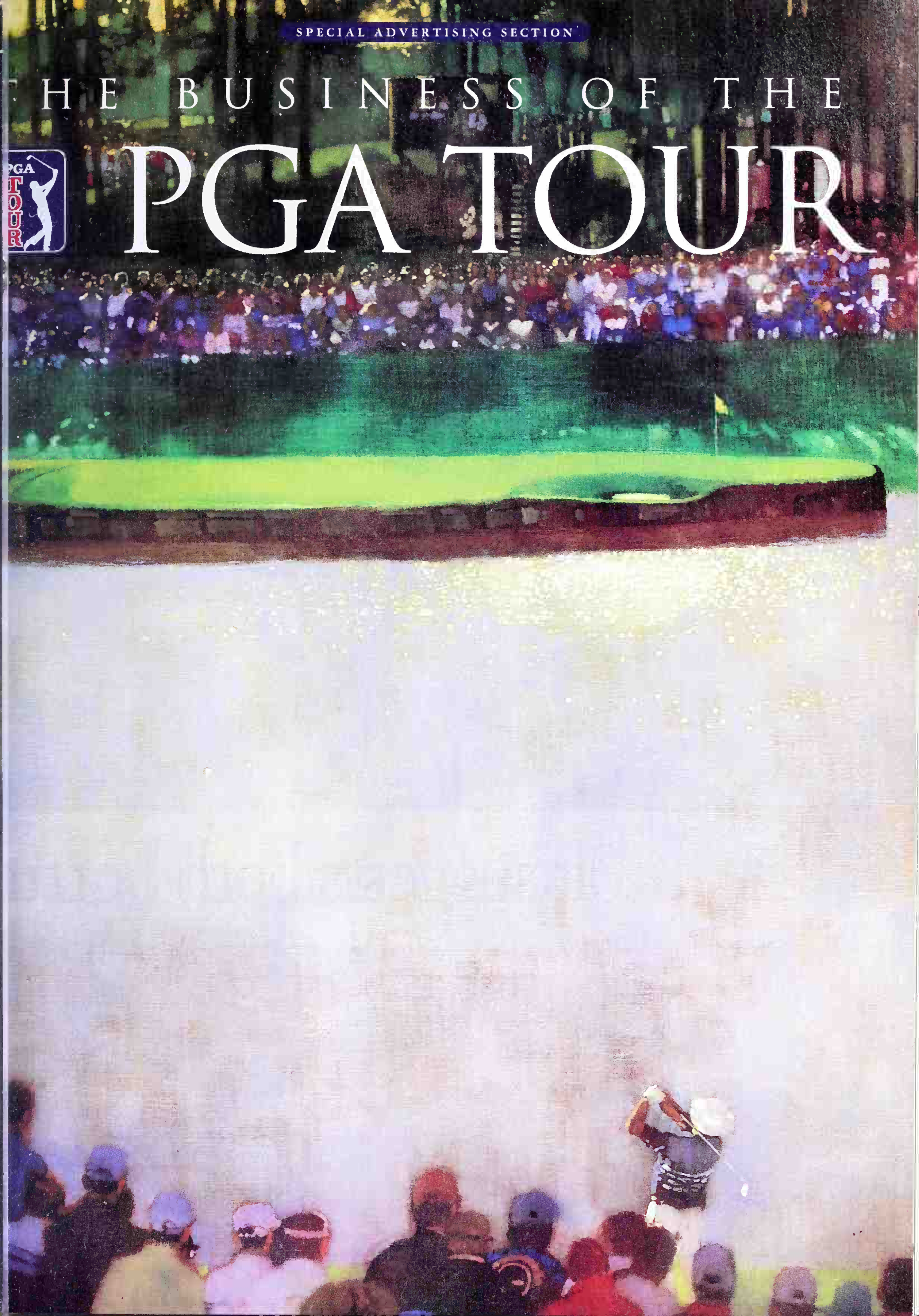

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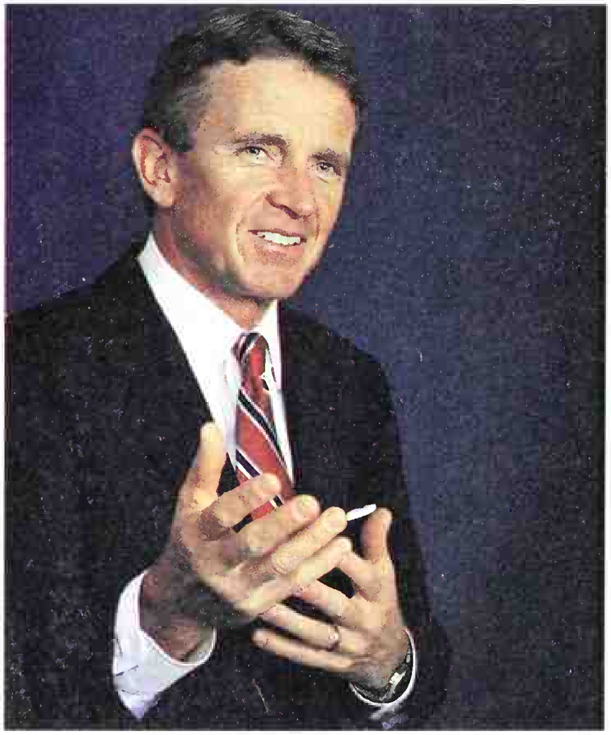
Q&A with Tim Finchem

Q: You have been Commissioner of the PGA TOUR for nearly a full year. Has the job been what you expected?
A: Having been the Deputy Commissioner under Deane Beman and having been involved in the operation of the TOUR for a number of years, I knew how the TOUR worked and understood the operational details. The difference now is in having the final decision-making responsibility. That has been the primary adjustment. Deane was very generous in the amount of responsibility he gave me during my years as Deputy Commissioner, so I was prepared for the operational aspects of the job; but the old saying, "The Buck Stops Here," certainly applies to the Commissioner's job. I am literally on call 24 hours a day, every day of the week.



Q: How did you establish your priorities for the transition?
A: I felt it was important to use the transition period to reconfirm that our structure is in line with our strategic objectives. I needed to understand how our various constituencies viewed the TOUR and the job that we were doing, so I spent a great deal of time on the road, visiting players, tournament sponsors, television networks, title sponsors, other golf organizations, our other corporate clients – everyone who has a working relationship with the TOUR. I wanted to gather as much information as I possibly could before we made any organizational or structural changes. I followed that course for a couple of reasons. One, I was comfortable with the ability of our current staff, so that no drastic overhaul was contemplated; and, two, I felt it was important to find out how other people viewed us before we undertook any structural or procedural changes. As I said when the Tournament Policy Board selected m as Commissioner, the choice was at least in part a reflection of the Board's opinion that things were running smoothly and we didn't need major surgery. That was as much a compliment to the staff as it was to me as Deputy Commissioner.

Q: Have you completed your fact-finding efforts?
A: Well, obviously, the inform tion-gathering aspect of my job will never be finished. I think it is very important to keep lines o communication open with every one in the golf world; however, we have started to examine our staff structure in a very detailed way and I would anticipate some changes in the way we operate over the next few mont We want to run a streamlined operation and we will be looki for ways to eliminate some of the overlapping responsibilities and perhaps change some reporting lines during the rest of this year.

Q: The PGA TOUR is held up as an example of how to run a professiona sports organization. How healthy is the PGA TOUR – and golf in general – in your mind?
A: The structure of the game is very sound. All the research indicates that

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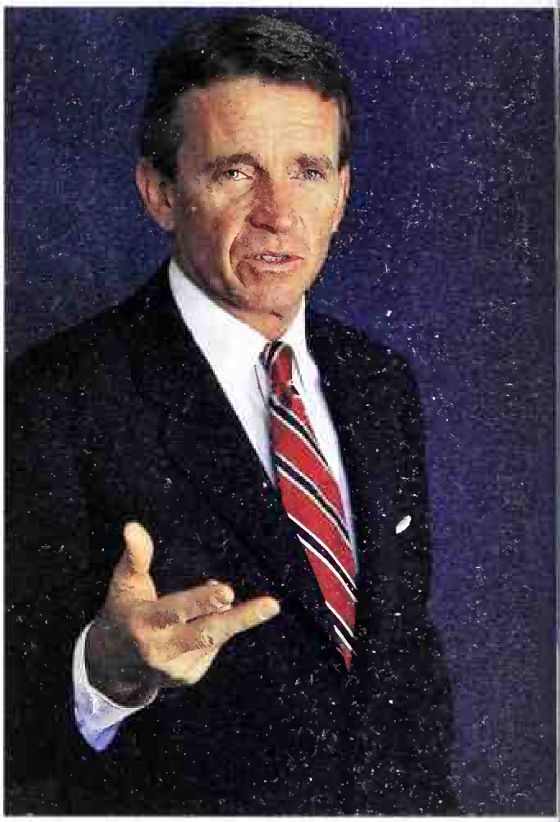
golf continues to grow in popularity, and we are pleased to see the game broadening its base. One of our objectives is for the people inside the ropes at a tournament to reflect the population outside the ropes, those millions of people who support the PGA TOUR and golf as a sport.

Q: How do you accomplish that?

A: We can't do it by ourselves, but our players are the most visible representatives of the game. We need to have programs that will help develop a broader base of participation. We have had a number of outstanding African-American athletes on the PGA TOUR, but it is a relatively small number. We should be competing with the other major sports – baseball, basketball, football – for the best young athletes regardless of their race. If we have a limited number of minority role models among our current membership, we should be using some of the prominent athletes in other sports who love golf. Golf is a game everyone can enjoy.

Q: What other kinds of things can you do to "broaden the base"?

A: We have had a minority internship program in place at the PGA TOUR for several years, and it has brought some outstanding young people into golf. We place college students into various organizations, including our own, during a summer program. Based on the quality of the people we have had participate, we feel confident that we can help minority students find real leadership and administrative positions in the game. Not everyone can have the playing ability of a Tiger Woods, but there definitely are young people out there who can contribute to the game in other ways.



Q: What are some of the other challenges facing golf and the PGA TOUR?

A: We have some threats to the game from the public sector, but we hope to have those sorted out in the not-too-distant future. The Federal Trade Commission has been looking at a couple of our rules for the last five years. They say that two of our rules in particular – the "conflicting event rule" and the "television release rule" – have restricted output. Our view is exactly the opposite: those rules have helped increase output. The number of players, the number of playing opportunities, hours on television, prize money, charitable contributions – there has been tremendous growth and expansion in all of those areas. We would not be able to put on the quality of the events that we do without those rules, so we hope to have the FTC's questions resolved soon so we can get back to our purpose: providing playing opportunities for our members and helping to raise money for charity.

Raising money for charity is a key ingredient in our success. Last year, the PGA TOUR raised nearly $32 million through the tournaments on our three tours.

Q: Why is charity so important to the PGA TOUR?

A: Raising money for charity is a key ingredient in our success. Last year, the PGA TOUR raised nearly $32 million through the tournaments on our three tours. That money flows directly back into the communities where the events are played, so that the thousands of volunteers who work at our various tournaments can see the benefits in their own areas. That is one of the reasons for our success and acceptance in so many communities. When you go to visit some of the charities that have received money from a PGA TOUR event, you really feel good about that aspect of our operation. I think that is why so many of our players have gotten involved in charity efforts in their own communities in addition to what the TOUR does as an organization.

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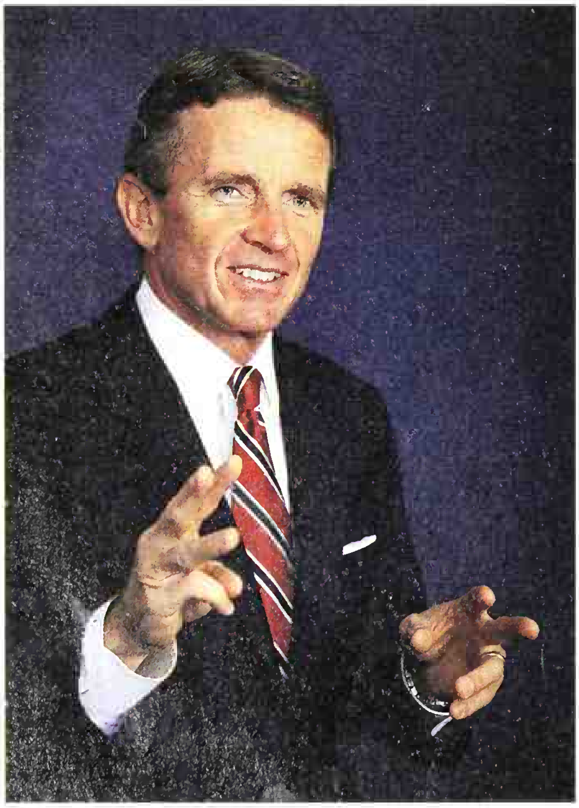
Q: What are some of the other reasons for your success?

A: The three main reasons for our success are the image of the players and the game, the growth in popularity of golf and the structure of the sport. By far, the most important reason for our success is the image of the game and the image of our players. Some surveys that have been done indicate that 94% of the fans surveyed view our players as positive role models. We don't take that for granted. We are constantly reminding our players of their responsibility to the game and their organization. Not that the players need a great deal of reminding. They are individual contractors as well as being PGA TOUR members, so they know the value of presenting themselves in a favorable light to the fans at our tournaments and the television viewing audience. Also, golf has been very fortunate in that many of its outstanding players have been great sportsmen as well. From Francis Ouimet and Bobby Jones through Gene Sarazen and Byron Nelson to Arnold Palmer and Jack Nicklaus, young golfers have had a rich tradition of sportsmanship among its very best players. That is a tradition we need to maintain, and we will.


STEVE FONTAINE/PGA TOUR

Q: You mentioned television. Has TV had a major impact on the PGA TOUR?

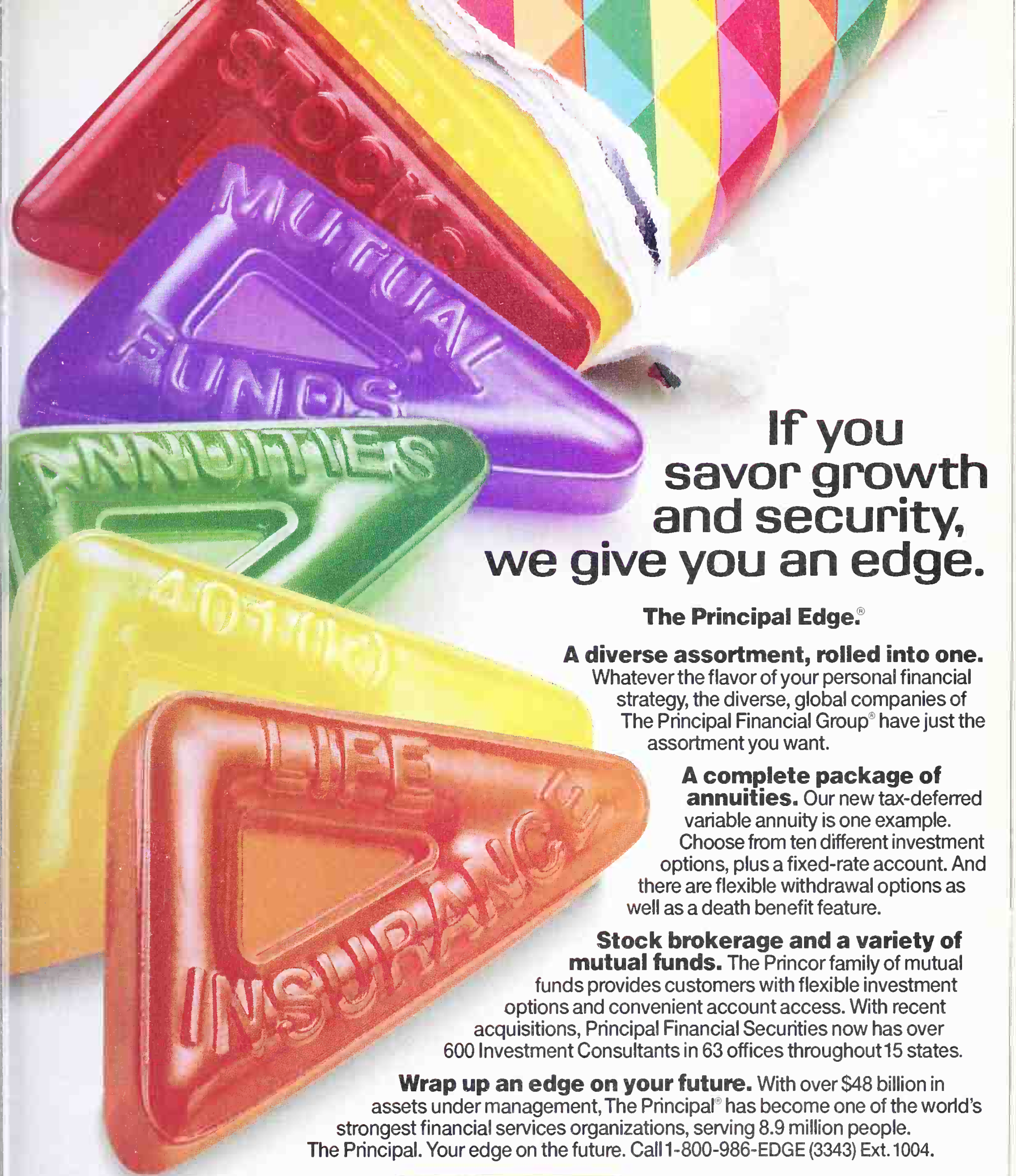
A: Television is certainly one of the cornerstones of our success. PGA TOUR golf is on practically every network around the world. That national and international exposure is not only beneficial to our players, it helps attract title sponsorship for our tournaments. We are on television in more than 100 countries around the world this year and the PGA TOUR brand is synonymous with quality in every market. The image of our players and the international exposure of our events throughout the world are two of the keys to our ability to stage the best tournaments and attract the best players to play in them.

Q: What do you see for the future?

A: We have an obligation to our members to provide them with the best playing opportunities and most attractive purses that we can. We choose to do that within a charitable structure, and our members support that decision. There is no reason professional golf should not continue to prosper if we don't lose sight of why we have succeeded thus far and if we continue to anticipate where the opportunities wil be for growth in the future. We know that television is changing and that viewers' choices are going to expand rapidly in the coming years. We want to start ahead of the trends in that are and take advantage of the marketplac in a shrinking globe.

Q: When you talk about a global marketplace, does that mean the PGA TOUR is going international?

A: We already are an international organization in many ways. As I mentioned earlier, the PGA TOUR is televised around the world, which gives t PGA TOUR brand name great value internationally. We have many of the best international players – Ernie Els, Nick Faldo, Greg Norman, Nick Pric and many others – as full-time members of the PGA TOUR. In fact, 37 of the top 50 players on the Sony World Rankings are full-time members of th PGA TOUR. It is our goal to have th best tour in the world, which means attracting the best players. The intern tional nature of the TOUR, combined with the international television exposure our events and players receive, boosts the PGA TOUR's recognition and value in the marketplace throughout the world. We have developed International Tournaments Players Clubs in Asia and Japan, including a site in China which will be the host club for the 1995 World Cup; and we expect the ITPC network to grow as interest in golf continues to boom internationally. So, yes, we are aware of the international opportunities for the PGA TOUR and we want to be properly positioned to take advantage of those opportunities.



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YOU WOULDN'T BUY A CHEAP CRASH HELMET.

LET'S DISCUSS CARS.

There are some things in life that are simply too important to scrimp on. And yet every day, people do exactly that when choosing the one piece of equipment statistically most likely to determine their fate—their car. ¶ Despite clear evidence to the contrary, many people still think of their car more as a fashion accessory than a serious piece of life-saving equipment. ¶ Fortunately, this attitude has never been fashionable at Mercedes-Benz. ¶ Which is why in every category that the government has set technical standards for safety, Mercedes-Benz automobiles not only meet them, but in many cases exceed them. ¶ And why in categories which the government does not require a standard, we have created our own. For instance, the government sets no standard for occupied seats absorbing rear impacts. But to pass the Mercedes-Benz standard, our occupied front seats must withstand a 30 mph car-to-car rear impact. ¶ Is there a less expensive way to build cars? To be sure. Is there a better way? If there is, you can be sure we will find it. ¶ Ultimately, the question you must ask yourself is not whether you can afford to buy a car built as well as a Mercedes-Benz. The question you must ask yourself is whether you can afford not to. ¶ If we can assist you in any way, please call 1-800-FOR-MERCEDES.

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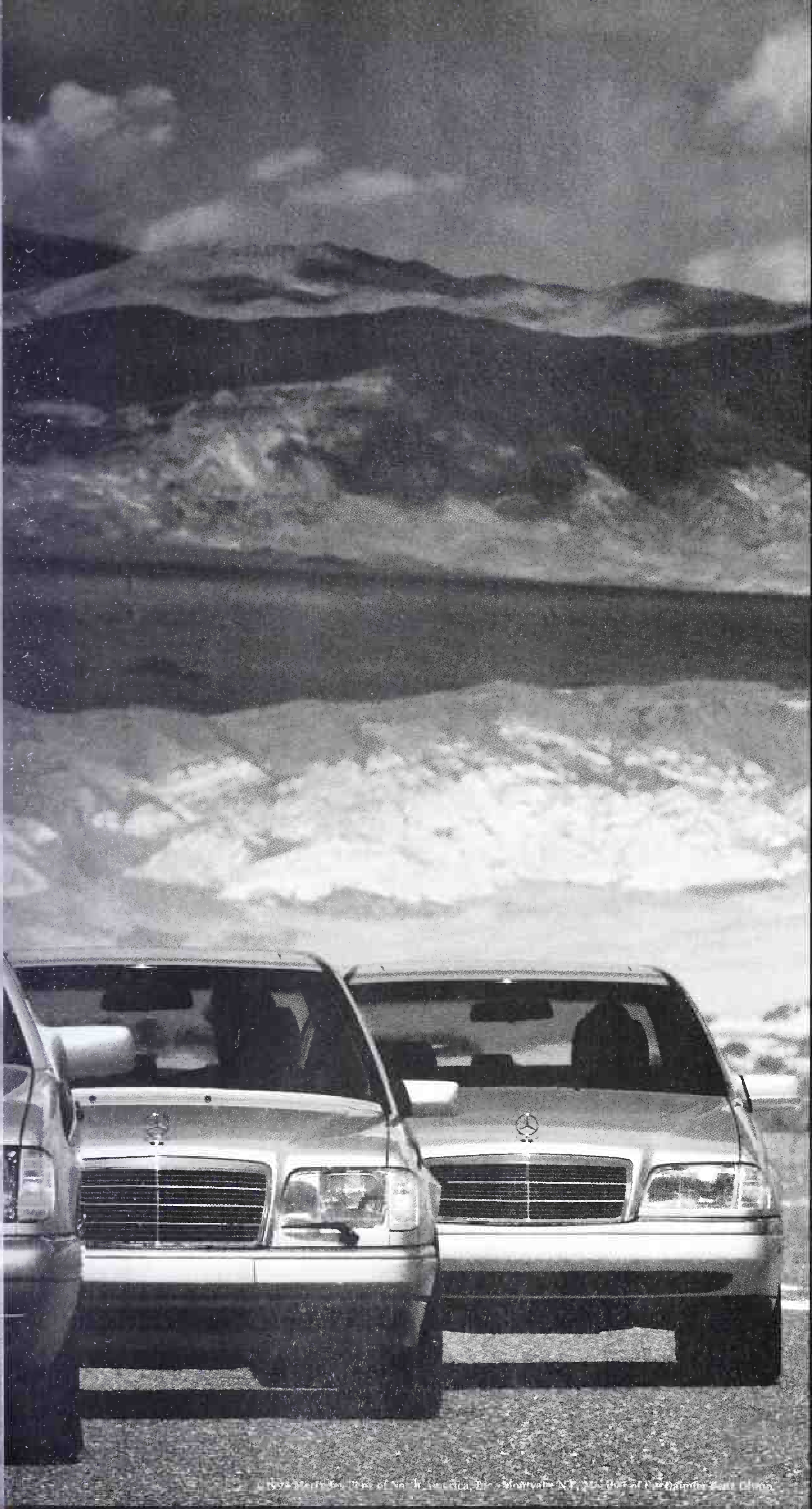

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◀ A word about value: every Mercedes-Benz automobile comes with a host of things you won't find on a window sticker—24 hour roadside assistance, for example.

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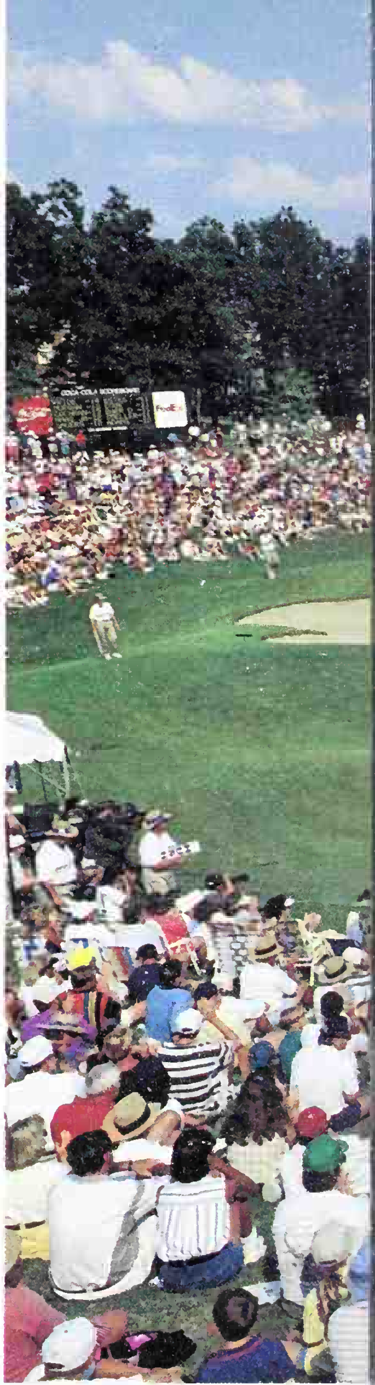
FedEx and the PGA TOUR Deliver

BY HELEN ROSS

PHOTOGRAPHY BY SAM GREENWOOD/PGA TOUR



Gil Morgan on the fairway.

Open the car door, and the pungent, sweet aroma of barbecue smoking in the building nearby greets you and invites you inside.

Those lip-smacking sandwiches of well-seasoned, chopped pork served up in the Germantown Commissary are popular items year-round. But business really picks up when the FedEx St. Jude Classic is played each summer just about a mile down the road.

Stop for lunch on your way to the TPC at Southwind. Or cool off, rest your feet and have dinner after you've followed your favorite PGA TOUR pro around the course.

If you're lucky, one of the golfers might even stop by. Jim Gallagher, Jr., Jodie Mudd and Peter Jacobsen like to eat there, and mementos from their visits hang on the wood-paneled walls.

Walker Taylor, who owns the Germantown Commissary, sees about a 25 percent increase in sales during the week of the tournament – "a nice little boost," he says. "A lot of our waitresses and catering personnel don't want to take their vacation that week."

The lunch crowd usually starts arriving at 11:15 a.m. But when the tournament's in town, Taylor opens up around 10. Business is steady most of the afternoon, "then, boom, around four o'clock people start coming for dinner," he says.

The Germantown Commissary's catering business picks up during the FedEx St. Jude Classic, too. Taylor says people living in the Southwind development particularly like to give parties during the tournament.

Businesses all over Memphis are affected by the FedEx St. Jude Classic. Some do business directly with the

Loren Roberts and many TOUR players generously donate their time visiting patients at the St. Jude Children's Research Hospital.

ırly one-third of all the people who attend the FedEx St. Jude Classic come from out-of-town.

ırnament. Others, like the German- wn Commissary, do more business their own because the PGA TOUR in town.

Memphis is located on the western- ost border of Tennessee, separated m Arkansas by the wide, rambling ississippi River. The city is called merica's Distribution Center," and e tournament's benefactor, Federal press, is the area's largest employer.

The St. Jude Classic, staged since '58, is something of an institution in and around Memphis, not unlike the home of Elvis Presley, Graceland. There is no other PGA TOUR event within a 250-mile radius of Memphis – extending in various directions to Chicago, Dallas, New Orleans and Atlanta.

"As far as this area is concerned, we are the mecca to see a PGA TOUR event," says Dwight Drinkard, who has directed the tournament for the last eight years.

Economic impact studies indicate that nearly one-third of all the people who attend the FedEx St. Jude Classic come from out-of-town. That's a boost for restaurants, hotels and nearby shopping centers – even gas stations, as well as for the tournament.

"The study shows that the average out-of-town stay is for 2.65 days," Drinkard says. "We were surprised and pleased at how high that was."

Since the study indicates many of the visitors stay overnight, the tournament arranges special packages with local hotels. The hotels get reduced-rate

If so many golfers are doctors and lawyers, why do they dress like used car salesmen?

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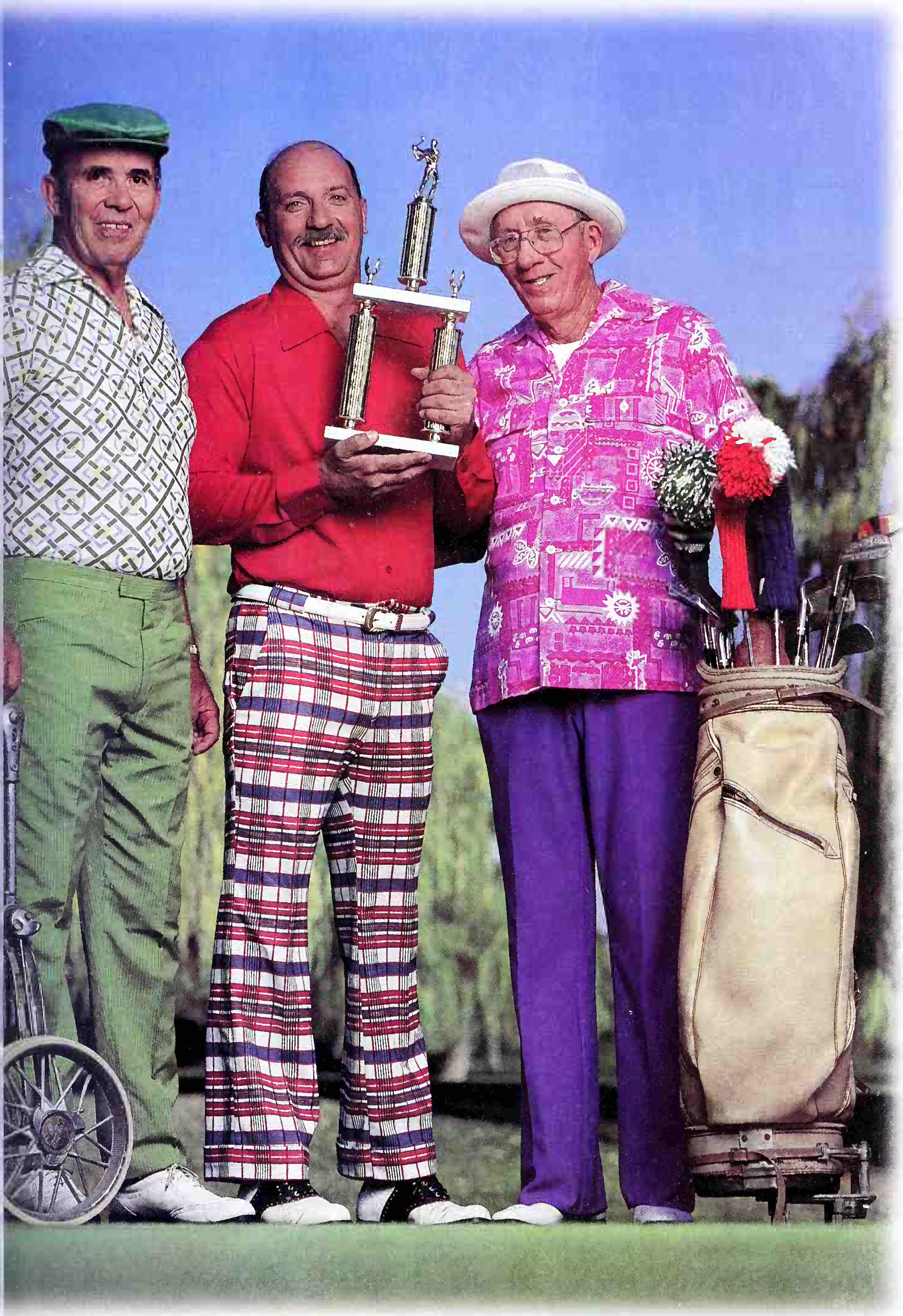


© 1995 Cluett Peabody Co. Inc

tickets, bus passes and visors to offer guests. The hotels often throw in a social event on site as an added inticement.

"They really take it and run with it," Drinkard says.

Overall out-of-town spending has been estimated at $4.4 million of the $12.6 million generally regarded as the total economic impact of the FedEx St. Jude Classic each year. Not surprisingly, tournament marketing efforts take pains to target the outlying areas.

"We make a definite public relations effort to specific small town newspapers," Drinkard says. "And through the Memphis Commercial Appeal, we have over 200,000 stuffers specifically included in the regional editions."

Tournament officials make sure that it's easy to buy a ticket, too. The Delta region for the Kroger grocery store chain corresponds to the St. Jude Classic's target areas, and the supermarkets serve as ticket outlets.

But Memphis benefits from more than just the money spent by the roughly 130,000-150,000 people who attend the tournament each year. According to the economic impact study, the FedEx St. Jude Classic pumps another $1.2 million back into the city annually.

Davis Love III and Greg Cesario provide a helping hand.

First and foremost is the annual contribution to the St. Jude Children's Hospital, the tournament's sole beneficiary for the last 25 years. The 1994 gift was $555,000 and the total contribution exceeds $6.25 million. Some 79 percent of that total has come since 1986, when Federal Express became the tournament's sponsor.

Then there are taxes, phone bills and utilities to be paid, and insurance to be purchased. Programs, signs and tickets must be printed. Companies are commissioned to erect and air-condition the corporate hospitality tents. Security and caterers must be hired.

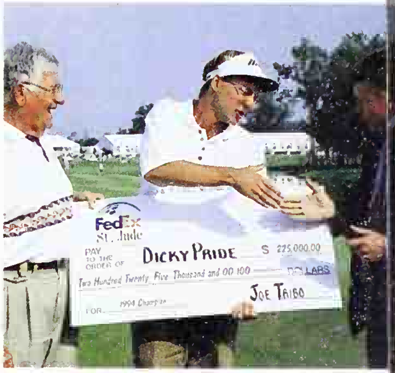
And those are just a few of the expenditures. Tournament manager Phil Cannon estimates that as much as 95 percent of the money the FedEx St. Jude Classic spends each year stays in Memphis.

"All things being equal, if we had a choice between an in-town vendor and an out-of-town vendor, we would choose the in-town one," Drinkard says. "There are obvious reasons – loyalty and civic concerns, as well as the fact that most local companies support the tournament."

As Drinkard said, the relationship is symbolic. Local companies purchase sponsor packages and buy corporate hospitality tents. Businessmen work with the Committee of 100, the St. Jude Classic's volunteer sales force.

"And that allows us to continue to impact the local economy," Cannon explains.

Mahaffey Tent Company is one of the many businesses that does business with the FedEx St. Jude Classic. The Memphis-based company, founded in 1923, has



1994 champion of the FedEx St. Jude Classic Dicky Pride is presented with his winner's check.

12 full-time employees and another dozen temporary workers.

For a golf tournament, Mahaffey president William Pretsch estimates the work force triples. It takes nearly three weeks to set up and equip the tents, another 10 days to two weeks to take everything down.

At one time, the FedEx St. Jude Classic was the only golf tournament with which Mahaffey was involved. But as corporate executives saw firsthand the things the company could do, its client list increased. Mahaffey now works with four golf events.

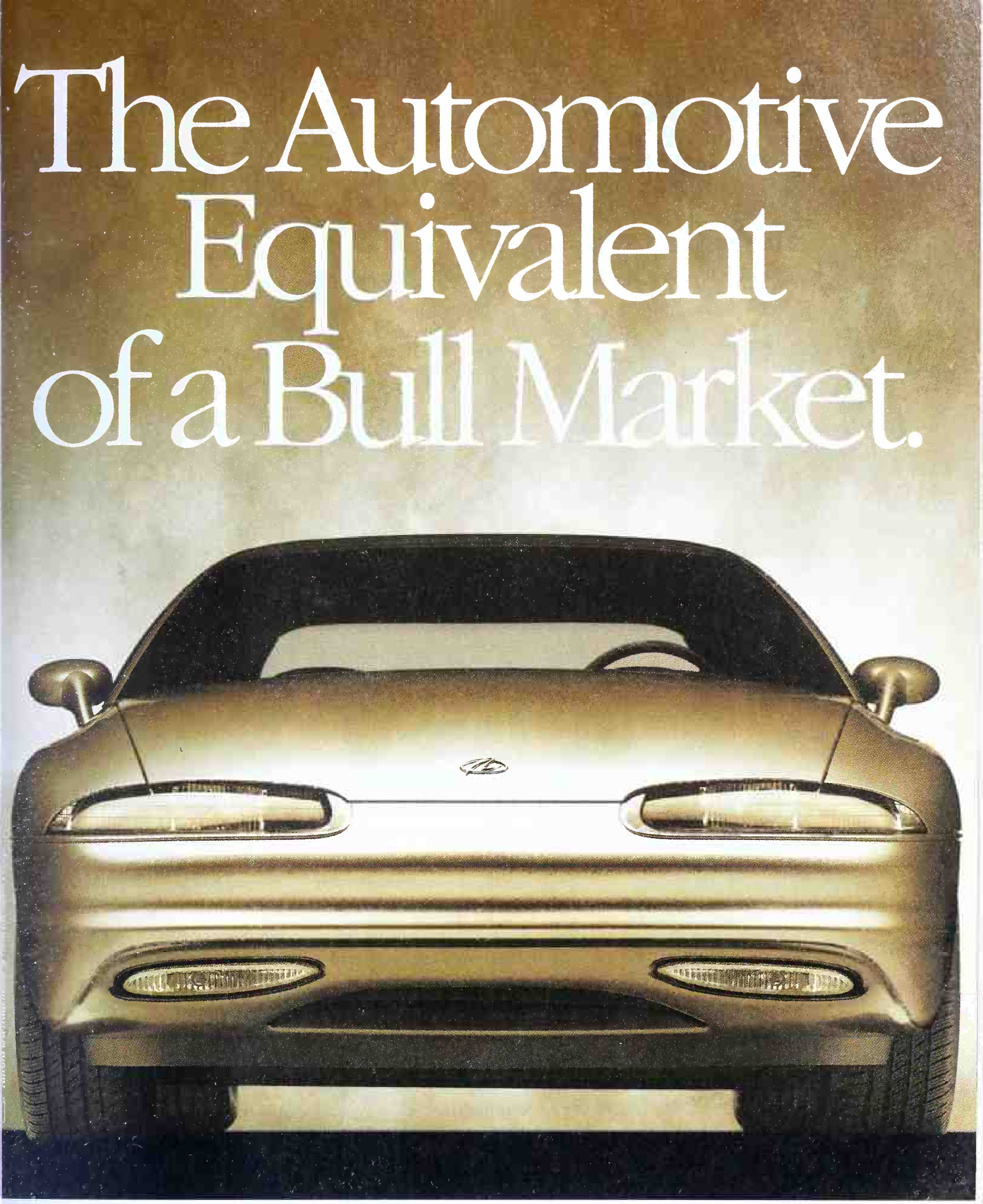
"The clientele and patrons at a golf tournament are so high up in income and position," Pretsch explains. The exposure Mahaffey gets pays off handsomely as a result.

"It's important from so many angle he says. "The bottom line is the impac of a big project. So many people see us and get ideas for what they want t do. Then they call the (office) of the St. Jude Classic, and they say, 'Oh, it was Mahaffey Tents.'

"I don't know how you quantify that multiplier effect. But we do get quite a lot of phone calls afterward."

The FedEx St. Jude Classic also is fortunate in that it hasn't had to compe for entertainment dollars with any professional sports teams. But that is chan ing this year. Both the Arena Football League and the Canadian Football Leagu will field franchises in Memphis.

"I think we can withstand the competition," says Cannon confidently. "W are firmly established as an annual rite of summer."



an go 100,000 miles before its first tune-up. It has a 32-valve, DOHC V8 that broke 47 different speed-endurance records during development. Ninety percent

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IBM Scores Again

BY CHELLE DELANEY

IBM and the PGA TOUR have been thinking about how improved scoring could enhance the tournaments for the fans.

They've been thinking along these lines:

"Suppose we could communicate the drama and excitement that hang on every stroke? Suppose we could know exactly where each shot went? Suppose, if the player birdied, we could know how the other players in the tournament had done on that hole? And how other players in previous tournaments had done? And know it immediately, in real time?"

Just imagine what that would be like. It would be an advancement in tournament golf that would be comparable to stadium golf.

But fans won't have to suppose or imagine for very long. IBM and the PGA TOUR are already working on the solution.

Tom Burke, IBM's manager of sports marketing, says, "Prior to IBM becoming the technology sponsor for the TOUR, there were any number of different ways to get the scores to the scoreboards, the press and the players. The networks and the press might generate their own numbers. At some tournaments, there might be three different scoring methods used."

Moreover, prior to IBM, it could take between one and two minutes to get the scores from greenside to the Coca-Cola scoreboards.

IBM provided its first solution by creating a single system, the IBM Gol Scoring System, that makes the scores at the end of each hole available to pla ers, fans and media. . .in seconds.

"We basically provided everybody with the same score and the same stats from the greens as a player putted out," Burke says. "It was a win-win for everybody."

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SAM GREENWOOD/PGA TOUR

Players as well as fans can get up-to-the-minute results and statistics.

STAN BADZ / PGA TOUR

IBM and the PGA TOUR have ;ned an agreement for four more years 1995 through 1998. So as IBM con- ıues as the "Official Computer of the ;A TOUR," fans can look forward to ore advancements in the IBM Golf oring System.

"There are two things that make a challenge at the tournaments," ırke says. "Basically, it's like run- ng a small business, spread over 0 acres, and moving it every week. ıere's been some interesting chal- ıges, but so far things have worked mendously."

At the first PGA TOUR event of is year, the Mercedes Championships, e computer giant replaced desktop mputers with the IBM ThinkPad, notepad computer with CD-ROM d speakers. Much smaller than the sktop PCs, the ThinkPad is easier to carry from tournament to tournament and easier to set up at each event.

"That's the direction our technology is heading, smaller and more portable," Burke says.

The ThinkPad is also easy for fans and volunteers to operate. "User friendly?" It has to be because the walking scorers and greenside scorers are volunteers who are new to the equipment. "Every day of every tournament, we have to train someone to enter these statistics," says Jack White, the PGA TOUR's director of tournament operations.

Also new at the Mercedes Championships: "The scoring stats are available as the players complete each hole. That's another technology update provided by the score entry terminal that now sits greenside," says Steve Evans, the PGA TOUR's information systems manager.

"So, for the golf fans on the course, the television people and the television audiences, that's a lot more meaningful than what we have had in the past."

After The Masters, IBM introduced its consumer multimedia PC, the IBM Aptiva Personal Computer, to the tournaments. Displayed at kiosks in areas such as the 19th hole, the Aptiva, with its video capabilities, will show the fans an aerial view of a particular hole, demonstrate how a pro typically strategizes and plays that hole. Also, player bios can be brought up on the screen, and they're just not text. They show the players in action.

Another solution, real-time golf scores throughout a tournament are not that far off.

"The next improvement will be to give spectators information as a round is progressing," Burke says. Today's scoring information must wait until the walking scorers, who are with each group of players, reach the green and turn in their scoring tickets to the greenside reporters.

In the future, the walking scorers will have lightweight portables that will directly input the scores, stroke-by-stroke, into the central system, says Burke.

"Sometime in 1996, individual shots and their associated stats will be shown instantly as each shot is played," Burke says.

Leo P. McCullagh, Jr., vice president, marketing and retail licensing for the PGA TOUR, says, "There has never been the kind of statistical collection and measurement systems in golf that baseball's had for years and years. . .But this real-time scoring will allow us to do some improved statistical collection."

SAM GREENWOOD / PGA TOUR

TOUR players Rick Fehr and Tom Lehman check their stats.

Evans says, "We know which shot went on the green. But what we'd like to know is: 'Did his third shot go into the left-hand rough or the deep left-hand rough?' And then collect all that information and analyze it, so we can tell fans how hard it is to get out of the deep left-hand rough."

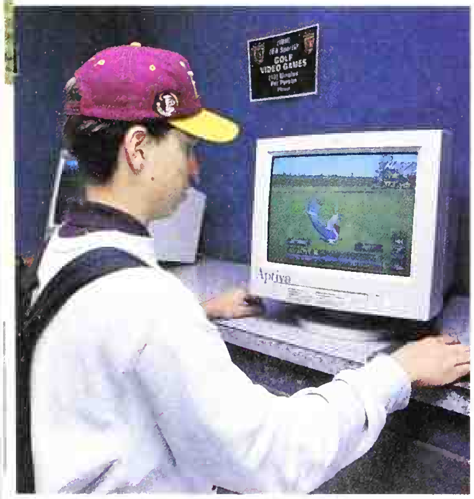
"With this system," McCullagh adds, "we'll know that one in a hundred shots from this position will hit the green."

Burke says, "Our next really interesting piece, as the worlds of television and computers get more and more intertwined, is to network and bring them together."

For example, Burke envisions a spectator at a tournament being able to go up to a computer and view the action at any hole on live television.

"All of these things are possible," McCullagh says. "These are not pipe dreams. These are all things that we can do to take the presentation of our game, in a technology sense, to the state of the art. But it will take time."

White sums it up this way: "In partnership with IBM, we're using technology to better present golf."



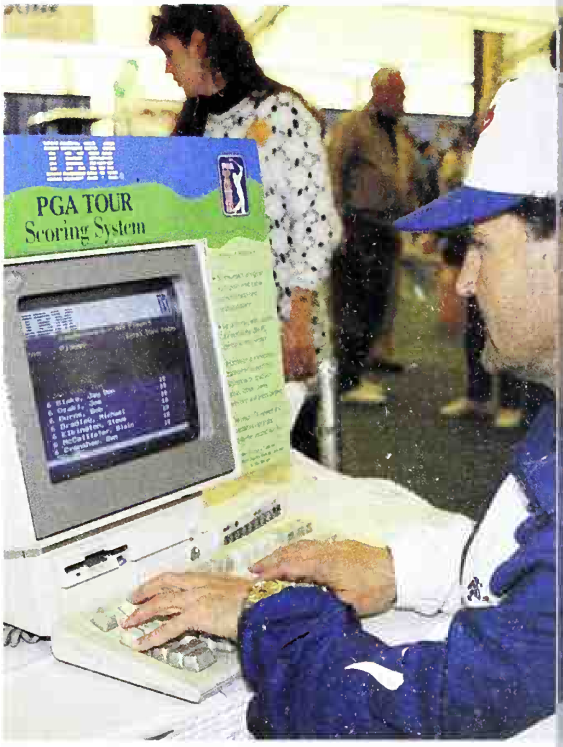
SAM GREENWOOD PGA TOUR

A Nissan Open fan checks out the IBM Scoring System.

And IBM is using golf to present its computers, as well as its solutions, to customers and potential customers.

International Business Machines, Inc., based in Armonk, NY, is the world's largest computer maker. In 1994, the company had earnings of $3 billion. Its sports marketing programs focus on premier sports and events such as the PGA TOUR, the NBA, Grand Slam events, and the Olympics.

"The PGA TOUR events match very well with our customer audience," Burke says. "The TOUR gives us an opportunity to demonstrate how we can provide a solution in a sport that they enjoy; enhance the sport for all the spectators; and give them a chance to see, feel and use our product lines. It's really been a win-win situation."



STAN BADZ PGA TOUR

It is easy to follow the leaders with IBM.

IBM's name and logo are seen on television in millions of homes. The computer maker also gets worldwide recognition and credit for its IBM Golf Scoring System in more than 100 countries, where the PGA TOUR is televised.

And this year, without television, IBM representatives are demonstrating the IBM Golf Scoring System in action to customers thousands of miles away from the tournaments.

For example, "We were in Orlando," Burke says, "and we could demonstrate the ThinkPad and scoring system by dialing into the tournament at Phoenix and bringing up scores and stats instantly – just as if we were right there in Phoenix. This really expands the demonstration capabilities of the ThinkPad, its speed, versatility and graphic capability. You can see the score – in color – updated every second. It's good for marketing."

McCullagh says, "We've gone from just an information system to an interactive and proactive sales vehicle for them; a place where IBM demonstrates and tries technologies; a system that definitely enhances fan value on-site; and a tie-in with television that will improve the broadcasting of golf, over time, through information technologies."

The partnership of the PGA TOU and IBM gives IBM continued access to the game that's a favorite of the nation's executives, IBM's best customers, and the fastest-growing participant sport.

"That's basically the reason we're in the game," Burke says. "We know that our customers are interested in golf. At PGA TOUR events they come across IBM's different product lines. . .and the solutions we bring to the TOUR."

Being on the TOUR, he says, gives IBM an opportunity to tell thei customers:

"Here's a sport you like. Here's a sport we thought we could bring a solution to. And here's the solution we brought to it."

That's what IBM is doing on the PGA TOUR today. . .and will be doin tomorrow – in real time.

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"The Big Bertha Fairway Woods are friendly too."

1995 PGA TOUR STATISTICS
through March 12, 1995

Driving Distance Leaders	*Avg.*
1. Dennis Paulson	282.8 yds.
2. John Daly	281.1 yds.
3. Dan Pohl	280.1 yds.

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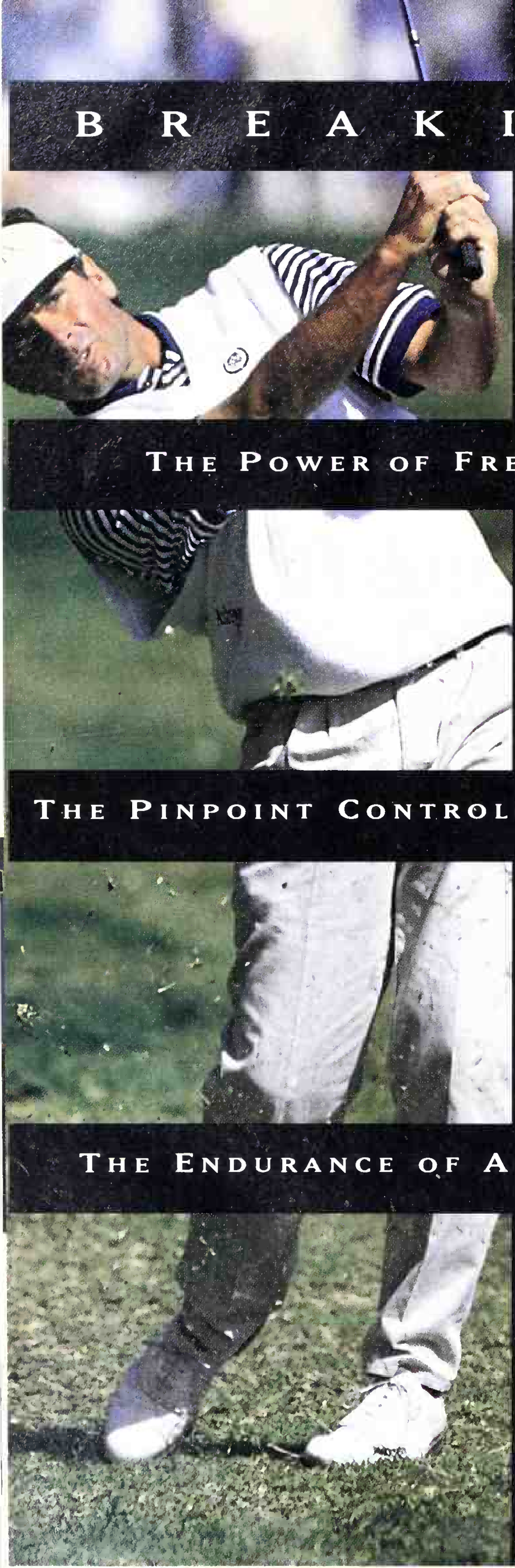

BREAKING PAR

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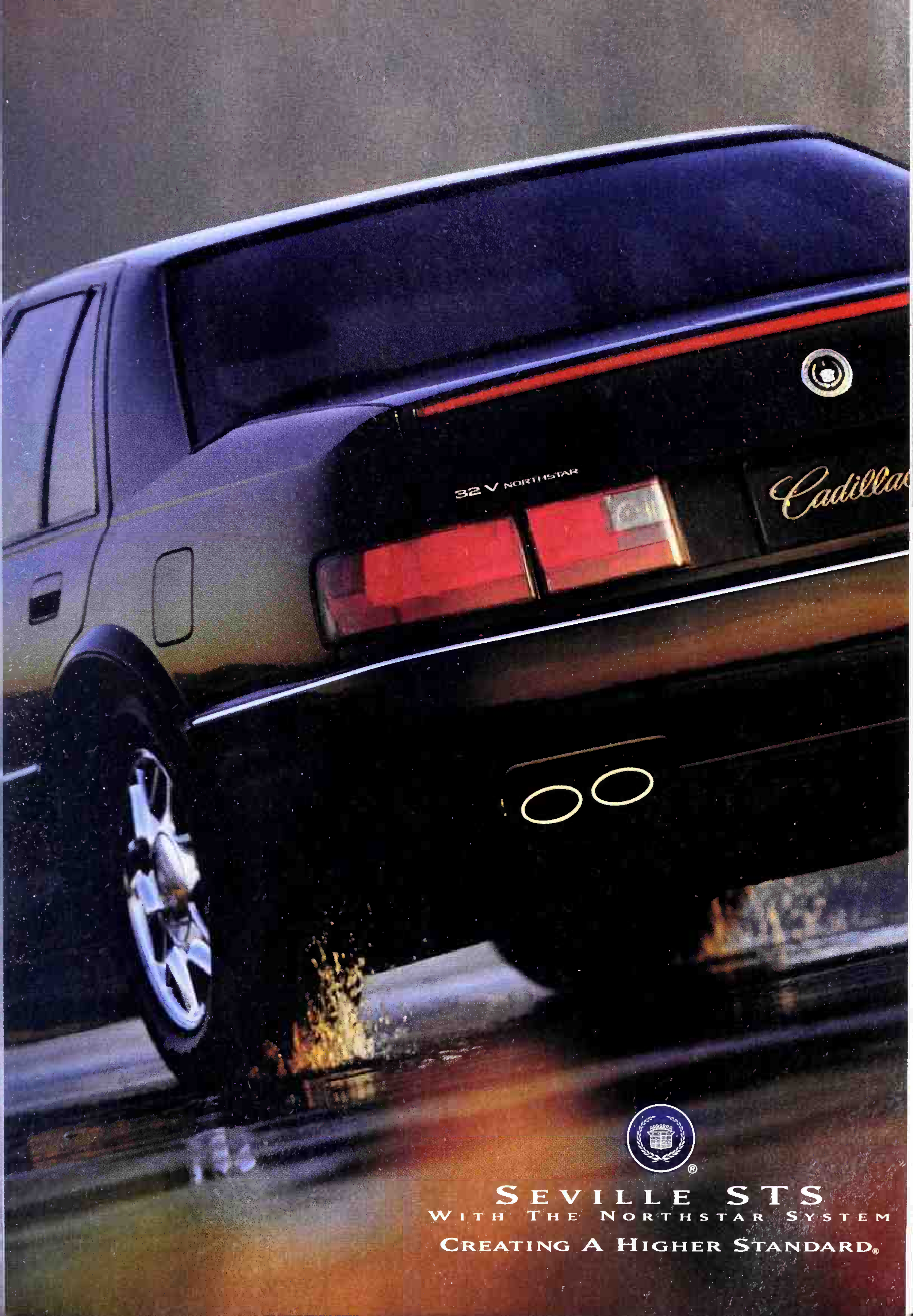
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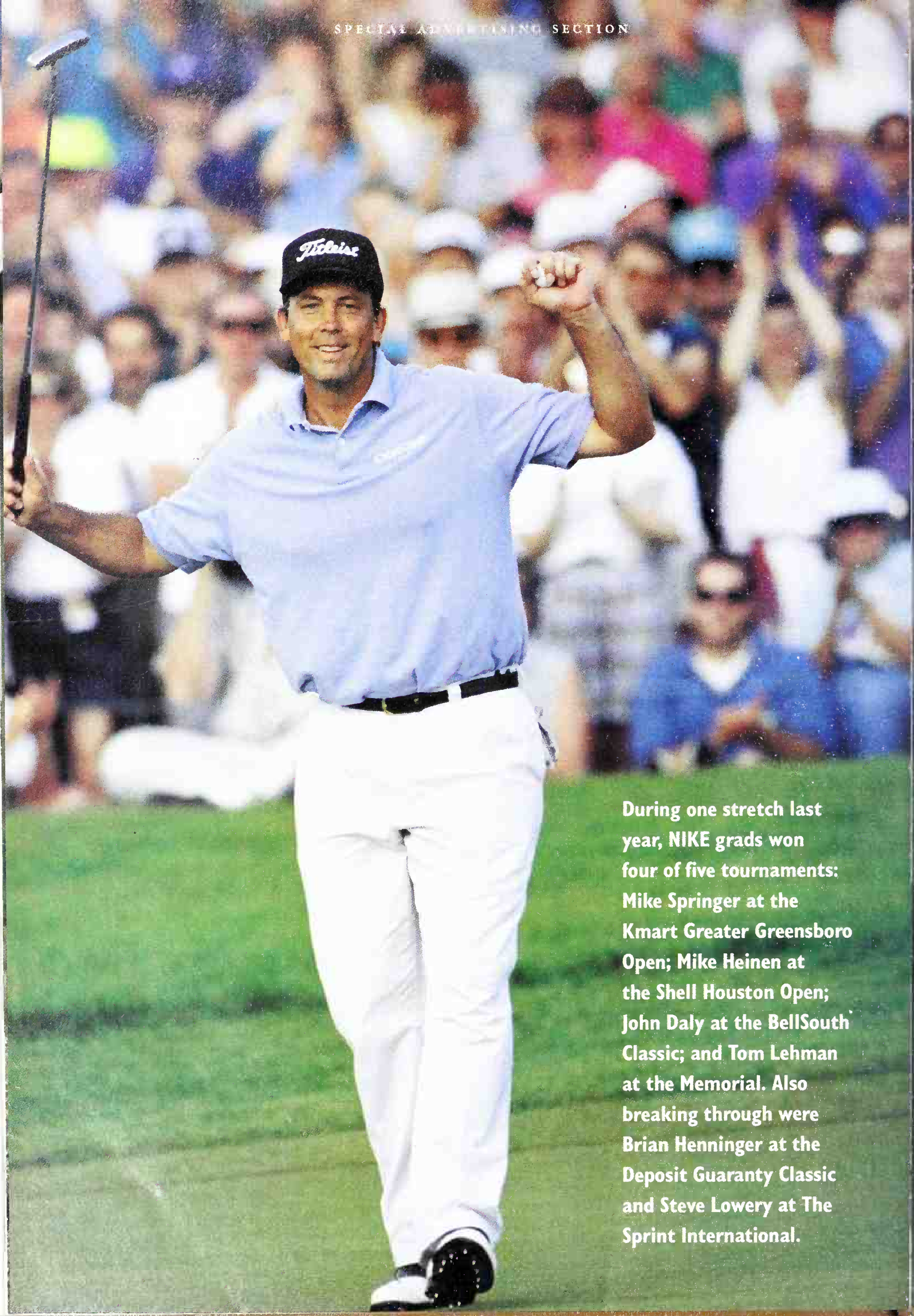
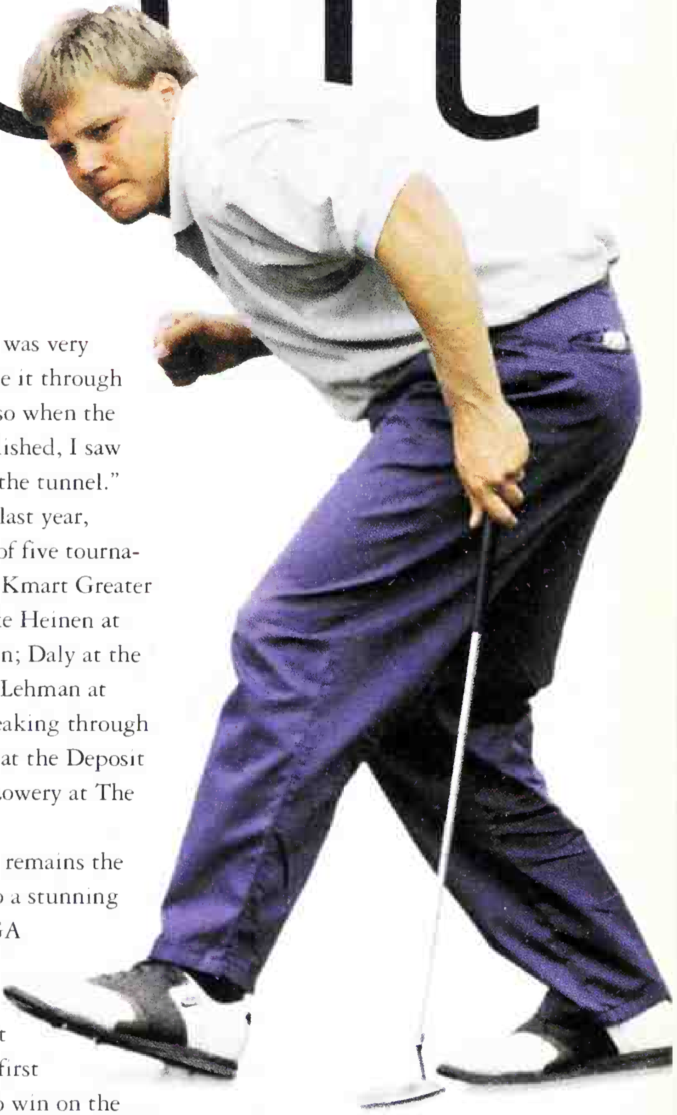


During one stretch last year, NIKE grads won four of five tournaments: Mike Springer at the Kmart Greater Greensboro Open; Mike Heinen at the Shell Houston Open; John Daly at the BellSouth Classic; and Tom Lehman at the Memorial. Also breaking through were Brian Henninger at the Deposit Guaranty Classic and Steve Lowery at The Sprint International.

Just Do It

BY MARK SOLTAU

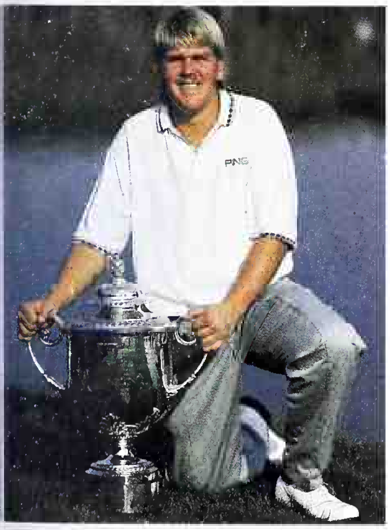


Mike Heinen

If it wasn't for the NIKE TOUR,
John Daly, Tom Lehman, Jeff
Maggert, Mike Springer, Steve
wery and Dave Stockton Jr. may
ver have found their way to the PGA
)UR. All used the circuit, formerly
led the Ben Hogan Tour, as a prov-
g ground to hone their games and
d out if they had the right stuff.

Daly, Lehman, Maggert and Springer
t only belong, they've become stand-
ts. All but Maggert captured PGA
)UR titles in 1994, bringing the
-year total to 14.

"Certainly, it was a boost," Maggert
d of the new Tour. "More important
getting your confidence up. I've
d four good years out here. I think
elong."



n Daly is one of many players who have graduated
he PGA TOUR.

Added Lehman, "It was very difficult for me to make it through the qualifying school, so when the Hogan Tour was established, I saw the light at the end of the tunnel."

During one stretch last year, NIKE grads won four of five tournaments: Springer at the Kmart Greater Greensboro Open; Mike Heinen at the Shell Houston Open; Daly at the BellSouth Classic; and Lehman at the Memorial. Also breaking through were Brian Henninger at the Deposit Guaranty Classic and Lowery at The Sprint International.

Daly, class of 1990, remains the most famous, thanks to a stunning victory in the 1991 PGA Championship at Crooked Stick Golf Club in Carmel, IN. At age 25, he became the first NIKE TOUR player to win on the PGA TOUR.

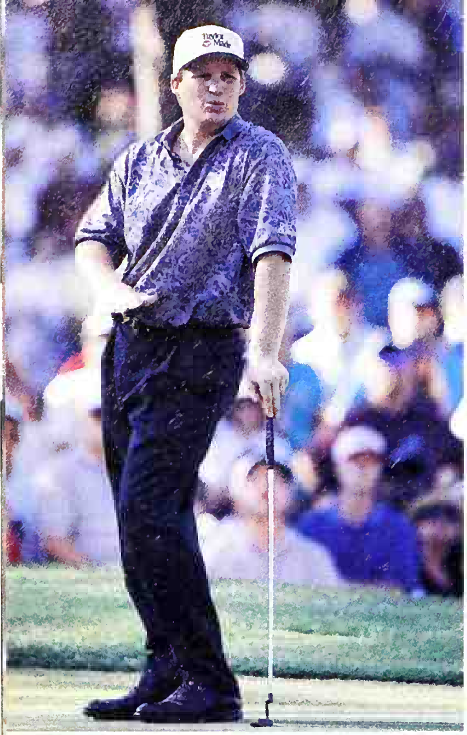
Since the Tour's inception in 1990, prize money has doubled from $3,050,000 to $6,125,000 in 1995.

"This has had size, scope and a mission from the start," said Dale Antram, Vice President of NIKE TOUR Operations, who also helped launch the Senior PGA TOUR. "We kind of ran that out of our hip pockets."

In addition, more than $6.8 million has been generated for charity, including more than $1.1 million last year.

"It's important for me to remember the opportunities that were given me," said Lehman. "I always like to give back as many times as I can. It's always nice to know that something that's given you an opportunity is also giving other people an opportunity."

When Hogan decided to sever ties with the PGA TOUR in 1992, there was legitimate concern. As it turned out, the parting may have been a blessing. Oregon-based NIKE, the world's



STAN BADZ PGA TOUR

Mike Springer

largest manufacturer of athletic shoes, agreed to take over sponsorship and pledged a five-year commitment.

"The transition from Hogan to NIKE was significant," said Antram. "Instead of a passive partner, we have a large, aggressive partner. It reversed a sinking feeling we had."

It also secured instant credibility for NIKE in the golf market. For years, the company had been trying to get a foot in the door. Now they have both feet in, and have become a force in the industry.

"It has legitimized NIKE in the golf business," said Mick McCormick, Director of Sales for NIKE Golf.

Not only does the NIKE TOUR provide an arena for newcomers and veterans, it also gives the game added exposure in new areas throughout the country. Thirty events will be contested in 1995 with minimum purses of $200,000. In addition, as many as seven tournaments will be shown on The Golf Channel. Also, the year-ending NIKE TOUR Championship in Atlanta will be aired on ESPN.

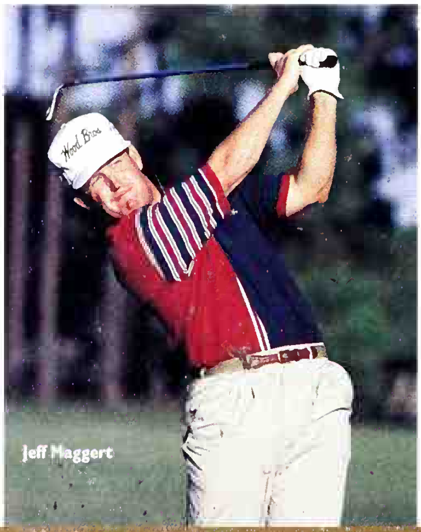
"The NIKE TOUR provides a great development opportunity for players and allows NIKE to be involved in grassroots, community-oriented golf events around the country," said Tom Clarke, President and COO of NIKE. "The first two years of our sponsorship have helped strengthen our links to the golf world and will provide us a great base from which to continue to grow our business and our involvement with a great game."

The top 10 money winners from the NIKE TOUR automatically earn PGA TOUR playing privileges for the following year. In all, 22 NIKE TOUR alums jumped to the big TOUR in 1995, 12 advancing through the PGA TOUR Qualifying School, including medalist Woody Austin.

In 1993, two former PGA TOUR winners, Curt Byrum (1989 Hardee's Golf Classic) and Stan Utley (1989 Chattanooga Classic) regained their cards by finishing among the top 10 on the NIKE TOUR. In 1994, Chris Perry, another former PGA TOUR regular, led the NIKE TOUR in earnings and is back with the big boys.

"It helps you test yourself," said Springer, who finished fourth on the Hogan Tour money list in 1990, and has now accumulated more than $1.3 million on the PGA TOUR. "The only difference is not as many people watch. It's good conditioning for the PGA TOUR.

Lehman agreed.



STAN BADZ PGA TOUR

Jeff Maggert

"Because the PGA TOUR made th effort to have all the Ben Hogan event emulate the TOUR, it was a much eas er transition," he said. "The field on today's NIKE TOUR is so competitiv making a cut out there is just as difficu as making a cut on the PGA TOUR."

Stockton, whose father Dave is a star on the Senior PGA TOUR, echoe those sentiments.

"It's like Triple A baseball," he said. "When I won my first NIKE TOUR event, it gave me so much confidence. I believed in myself and knew I could win."

"Junior" won two NIKE TOUR titles in 1993 and shared medalist honors in the 1993 PGA TOUR Qualifying School. He was in contention twice last year, securing a pair of third-place finishes, and retained his card by banking $185,205.

"The guys you're watching on the NIKE TOUR now are the guys you'r going to see on the PGA TOUR the next five or six years," said Stockton. "It's a wave. They're going to be the stars of the future."

NIKE will help sponsor PGA TOU rookie Pat Bates this year, and has also begun a new clothing program for members of its own circuit.

"We'll probably have as many as 50 NIKE TOUR players from head to toe," McCormick said.

In the early years, galleries were sparse. But last August, the NIKE Ozarks Open in Springfield, MO drew 40,000 spectators, further evidence the NIKE TOUR is making an impact.

"What the NIKE name means is a lot of energy, credibility and active involvement," said Antram. "The talen keeps increasing each year."

Daly, Heinen, Henninger, Lehman Lowery, Maggert, Springer and Stockt are proof positive.

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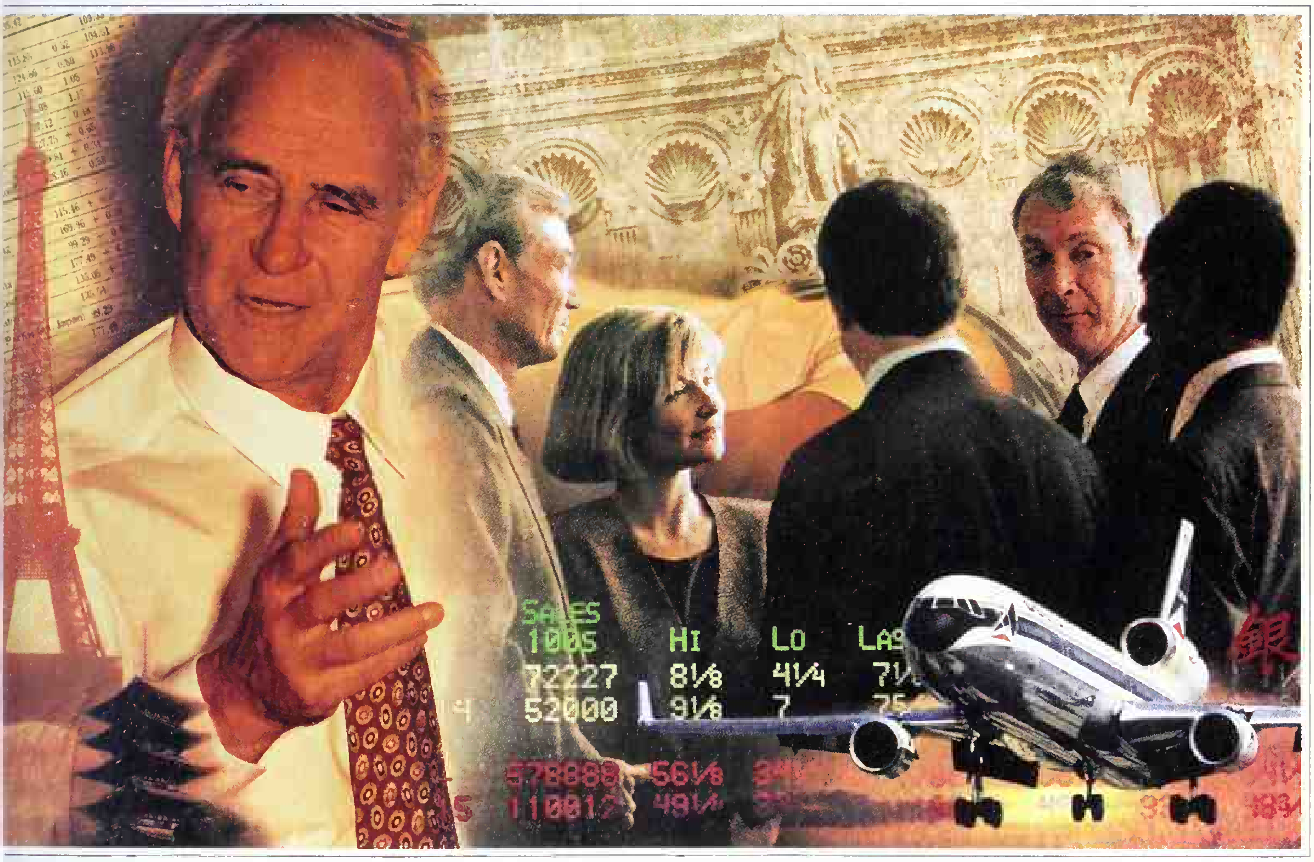

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MERRILL LYNCH SHOOT-OUT
IBM SCORING SYSTEM
AT&T
The right choice.

Company Benefits

BY JAY WILLI

Birdies, bogies, fliers, three-putts. The words that swirl around the world of the PGA TOUR often define the day-to-day, shot-to-shot guts of the sport, of fortunes won or lost by a stroke while going about the business of being a professional golfer.

When David Robertson thinks of the PGA TOUR, the words he sometimes conjures are "mind share." David Robertson, you see, goes about the business of being the director of business advertising for AT&T and when he looks at the TOUR from his corporate perspective, he sees a way into the hearts and minds of the international business community.

AT&T is the official telecommunications company of the PGA TOUR as well as being the title sponsor of the one of the TOUR's oldest and proudest events, the AT&T Pebble Beach National Pro-Am. AT&T is one of dozens of corporations with official ties to the PGA TOUR, and all are seeking the same basic benefit: to belong to an exclusive club in which everybody wants to be a member.

This is a look at how a few corporate members of the club see their relationship with the TOUR and the benefits they derive from it.

THE PLAYERS
CHAMPIONSHIP
SKYTEL

STAN BADZ PGA TOUR

SkyTel is the official wireless messaging company of the PGA TOUR.

Robertson is looking for something special. He's looking for a way to connect with executives of major companies who do business or who might do business with AT&T. He knows that most business executives love golf, that there is a very dedicated share of their minds that loves the game. So maybe most of the time that mind share is dedicated t double bogeys, shanks and $10 Nassaus. Robertson knows, however, that he can use that mind share to connect AT&T to business opportunities, he can do so most effectively by being involved with the PGA TOUR.

"We believe that our involvement in golf help us with our long-term business dealings," said Robertson. "So many of the executives of the companies we do business with or would like to do business with play golf, so it makes sense that we involve ourselves in the game in a meaningful way from the corporate standpoint."

For Robertson, the PGA TOUR provides an unique business forum, one where the actual

Cadillac
Measure Up Challenge
Cadillac
Measure Up Challenge

STAN BADZ PGA TOUR

Cadillac attributes $230 million in sales to its association with the Senior PGA TOUR.

ing of business isn't as important as e personal relationships that can be rmed in such an intimate atmosphere.

"The PGA TOUR has the kind of edible image that we want to be asso- ated with," said Robertson. "Pebble ach helps us bring together many ecutives in a great environment that's ry conducive to establishing or main- ning relationships. And that's what r PGA TOUR involvement is about, ilding and maintaining relationships."

Jim Merrigan is events manager for T&T, which has been the title sponsor Pebble Beach since 1985 and a corpo- e sponsor of the TOUR since last ar. AT&T provides the TOUR and players with telecommunications istance and equipment.

"We don't really track or try to antify the benefits of being associated th the TOUR," said Merrigan. "We st know that it is very beneficial to r company and we want to continue that relationship. We can easily see how our clients enjoy being in the golf environment."

PLAYER FITNESS CENTER
BAYER
This January, Bayer Aspirin became the official pain reliever of the PGA TOUR.

At TOUR and Senior TOUR stops across the country, the Centinela Hospital fitness trailer is a familiar sight to golf fans and a welcoming one to professional golfers. Inside the trailers players can get therapy for an aching back and exercise to extend a backswing. Centinela's corporate involvement with the TOUR is definitely hands on.

Centinela is the official hospital and research center of the TOUR, an involvement that grew out of research into the golf swing during the mid-'80s. The Centinela hospital network includes a 403-bed facility not far from the Great Western Forum in Los Angeles, and 11 other satellite hospitals. Centinela doctors deliver babies, extract appendixes and do heart surgery. But the hospital is known best for its work in sports medicine.

So many great professional athletes have come to Centinela for surgical repair and therapeutic rehabilitation. Pro baseball's Orel Hershheiser, pro football's Jim McMahon, tennis' Ivan Lendl are among thousands of athletes to come under Centinela's care. Paul Azinger took his cancer treatment at Centinela. And there are dozens of Senior TOUR players who will tell you that, without the Centinela fitness trailer, their careers might have withered away.

"Our association with the TOUR keeps our name out there nationally and internationally," said Russell Stromberg, president of Centinela Hospital. "We are a world-class sports medicine facility. We have done extensive research on the golf swing and the injuries that are specific to it. It seemed natural that we should become involved corporately with the TOUR. We feel very comfortable with this association.

de the Centinela fitness trailers you will find Bayer Aspirin products.

Here's one way to
cut costs.

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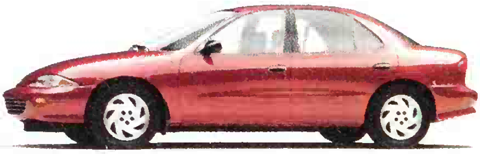
On the other hand, we've come up with **more effective** ways to get **more** for your **money.**

All over the world, companies are making sacrifices to stay competitive. They're looking for products that not only deliver exceptional performance, but exceptional value, as well. That's the essence of Genuine Chevrolet. Chevy has introduced more new cars and trucks than any other manufacturer in the past year, and each one has been thoughtfully engineered to keep your employees comfortable and your company profitable. Lumina, Monte Carlo, Blazer, and coming soon, the new Cavalier. All vehicles that offer much more than just "basic" transportation. To find out more, call us at 1-800-FLEET-OPS (353-3867).



Cavalier LS Sedan

Lumina Sedan

Corsica Sedan

Astro Cargo Van

GENUINE CHEVROLET™

We draw much of our business nationally, and the TOUR gives us more than just advertising. We get to prove on a national scale what we can do."

Inside the Centinela trailers you will find Bayer Aspirin products. This January, Bayer became the official pain reliever of the TOUR. Bayer has a promotional slogan that reads: "As you get older, you get smarter, you get Bayer." That slogan goes directly to the golf audience.

SAM GREENWOOD/PGA TOUR

Kenny Knox with a young fan.

"Our association with the TOUR delivers the demographic target audience we are looking for," says Michelle Priefer, who is manager of medical marketing and public relations for Bayer. "Our research shows that the people who watch golf and play golf are 40-plus years old. That's just who we are looking for."

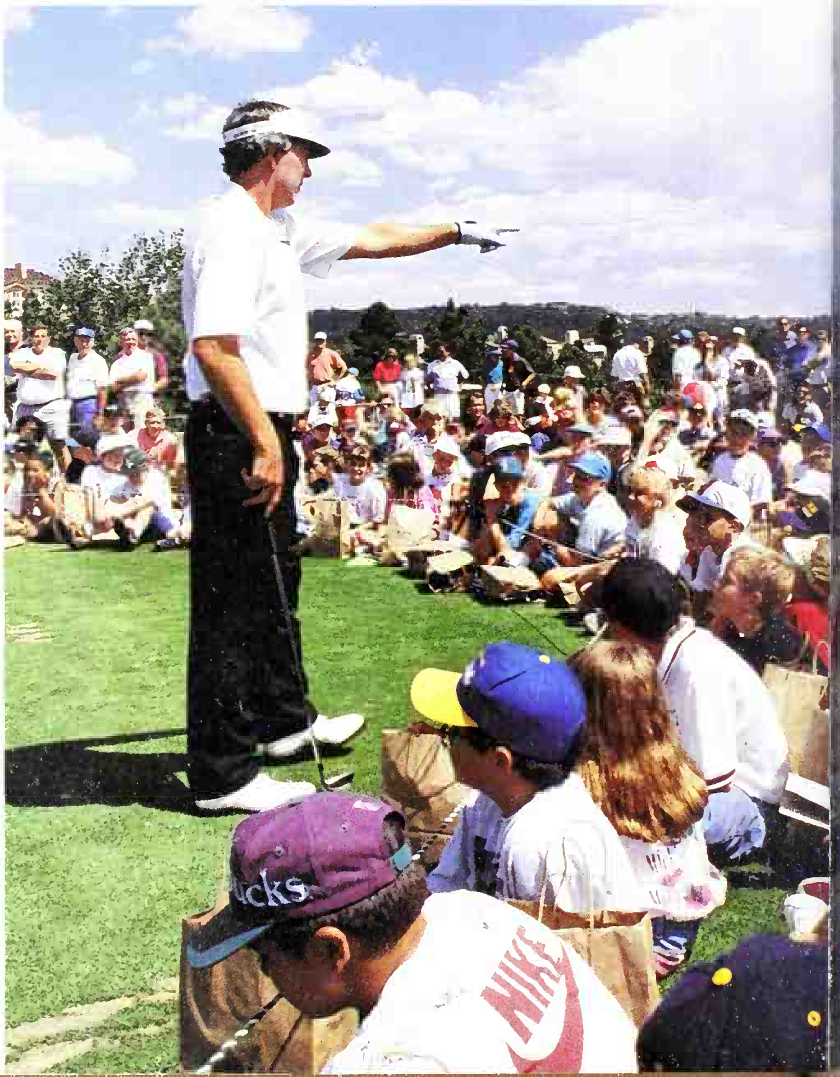
NIKE is looking for a somewhat younger audience. In the 1970s, the NIKE shoe people created Athletics West, a program to nurture Olympic-class athletes. It reflected a philosophy of being involved with sports at the grassroots level.

What better sport to be involved with at the grassroots level than golf, and, in 1993, the footwear giant signed on to be the sponsor of the NIKE TOUR, the PGA TOUR's entry level to stardom. It is a commitment often rumored to be at least $20,000,000, a rumor not denied.

NIKE began making golf shoes in the 1980s and when Curtis Strange won back-to-back U.S. Opens wearin NIKE shoes in 1988 and 1989, it allowed NIKE a grand stage to tout it golf line. But sponsorship of the NIKE TOUR allows NIKE an even grander setting to promote its products, which also include apparel and accessories such as gloves and hats.

"We've always wanted to be associated with supporting athletics from t grassroots level, which is why we thin the NIKE TOUR is a perfect fit for u said Merle Marting, NIKE's promotions manager.

It isn't just the sales and marketin aspect that appeals to NIKE. "We're youngsters in the golf business," said


SAM GREENWOOD/PGA TOUR

rting. "We're able to learn ot about the golf business m this association. The PGA)UR has been able to coach along in the golf business, ich you know is highly npetitive. We want to be used on the sport, be totally grossed in it and not just e a few contracted athletes.

Curtis Strange's back-to-k wins put us on the map. t we were looking for more. We nk the NIKE TOUR is on the growth ve of the Senior TOUR, and we hope will be able to grow right along h it."

THE NIKE SHOP
THE NIKE SHOP

STAN BADZ PGA TOUR

Sponsorship of the NIKE TOUR provides NIKE a grand setting to promote its products.

And there are some numbers that bear out the benefits of NIKE's sponsorship. Marting said that golf footwear bookings are up 44 percent over 1994, and apparel bookings are up 150 percent. "Everybody here thinks it's been a tremendous opportunity," said Marting. "Our sponsorship of the NIKE TOUR means that NIKE is looked at as a credible company in the golf business."

Alex Morton, as executive vice president of advertising at DMB&B, puts about eight percent of Cadillac's advertising and marketing budget into the PGA TOUR. The largest commitment by far is to the Senior TOUR, where 20 events come under the heading of The Cadillac Series. All 20 events are televised on ESPN with Cadillac as the sole automobile sponsor.

"We were fortunate enough to anticipate the phenomenal growth of the Senior TOUR and get in at the start in the mid-'80s," said Morton.

"The Senior TOUR is perfect with Cadillac's demographics: Older, affluent, active."

And Morton has a pretty big number to proclaim that Cadillac and the Senior TOUR are the perfect match. Try $230 million. "It's been wildly successful," said Morton. "We have sold $230 million worth of product directly attributable to our involvement with the Cadillac Series. My feeling is that we actually generate a lot more sales than this."

Cadillac gets its local dealer groups involved, offering test drives in exchange for tickets to Senior TOUR events, and setting up sales displays at the events themselves. This allows DMB&B to pay close attention to the benefits of its association with the TOUR.

There is one year remaining on Cadillac's contract to underwrite the Cadillac Series, and Morton has every intention of continuing the relationship. "Our market research shows that Cadillac is known as the number one sponsor in all of golf, and that includes all the equipment companies. A lot of companies spend more money and don't get the exposure we do. It's far exceeded our expectations for success. This will be written some day as the classic program of integrated marketing where image, preference and purchase come together."

Irwin entertains a group nding a Coke clinic.

Here's to You

BY ART SPANDER

Golf seems as much a passion as a pastime. If you don't take it seriously, someone mused, it's not fun. And if you do, it breaks your heart.

Surely, of the games people play and watch, nothing equals golf's compelling blend of joy and heartbreak – a slice of life if not a slice off the tee.

Indifference has never been a failing of the golfing crowd. Golfers and golf fans are fervent toward the brand of clubs they swing, the pros they follow, the clothes they wear and, not insignificantly, the beverages they drink.

Thus did executives from Michelob, at the upper end of the spectrum of Anheuser-Busch beers, sign a five-year contract early last year to become a part of the PGA TOUR Marketing Partners. They sought a distinct and a distinctive segment of consumers with which to build a relationship.

And, apropos of nothing but pertinent to a great deal, Michelob already was recognized for an advertising slogan that reflects the varied emotions of golf.

Bobby Jones once said golfers were dogged victims of an inexorable fate. Michelob puts it a little more succinctly: Some days are better than others.

Michelob has been involved with golf for more than three decades and even sponsors Roger Maltbie, listed as a member of the Michelob Advisory Staff. But not until last year did it become a PGA TOUR Marketing Partner, joining such corporate leaders as AT&T, Merrill Lynch, IBM, Delta Air Lines and Buick.

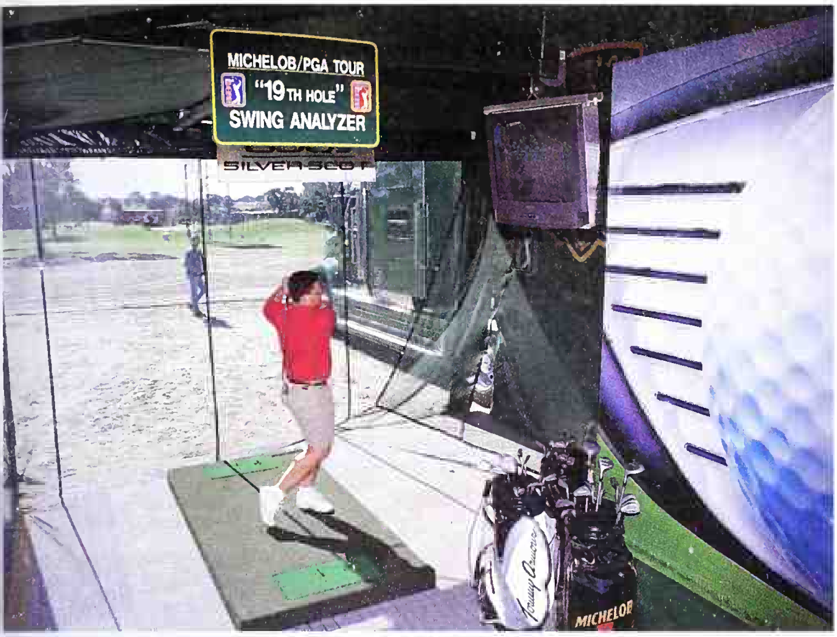
"We are matching up the audiences on demographics and image," said Tim Schoen, senior brand manager for the Michelob Family. "Golf is on an incredible rise.

"But more importantly, the increa of consumers that are golfing more an buying more equipment are younger and more of the common man, or wh we refer to as the beer drinker."

Becoming a marketing partner mea more than just paying a fee to the PGA TOUR and then declaring yourself the "official" this or "official" that although that is not to be ignored.

Leo McCullagh, vice president of marketing and retail licensing for th TOUR, said the marketing partners, as implied, are now involved in a partnership."It's no longer just a question of giving these corporations a few spots in the pro-am or some tickets to the tournament," said McCullagh. "We've become pro-active.

"We learn their business. We try t understand what their objectives are. And we work with them to help them realize a return on their investment from golf."



swing analyzer provides fans with an opportunity to test their game.

In what has been called the largest gle marketing commitment in the ırly 100-year history of the brand, chelob became a co-sponsor with ·rcedes of THE TOUR Championship, : final official event on the schedule; ›duced the "19th Hole," a mobile play vehicle with interactive features; ›nsored the "Michelob Moment" ESPN's weekly programs on the TOUR and Senior TOUR; and bought time on tournament TV coverage.

Anheuser-Busch also came out with a unique method of combining the sport it is sponsoring and the item it sells, offering cans of Michelob, Michelob Dry and Michelob Light with graphics and descriptions of 18 different holes from PGA TOUR and Senior TOUR events.

The 18th at Harbour Town Golf Links is there. So is the 18th of Doral's Blue Monster, where both Nick Faldo and Greg Norman found water during this year's Doral-Ryder Open, won by Faldo. The famous 17th from the TPC at Sawgrass, with its island green, is also featured.

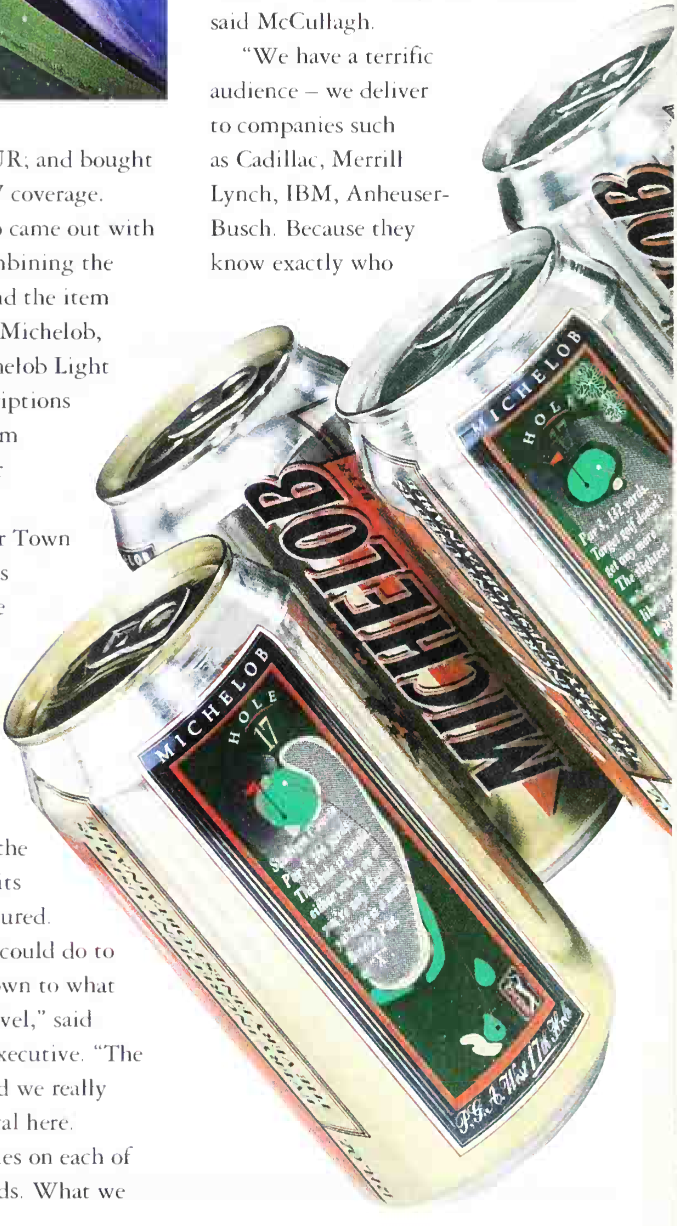
"We asked what we could do to take our sponsorship down to what we call the grassroots level," said Schoen, the Michelob executive. "The in-store promotion. And we really found something magical here.

"We have the 18 holes on each of the three different brands. What we found is that the reception from retailers and consumers has been extraordinary. Our bottle business hasn't lost out at all. It's given the Michelob franchise a boost altogether. It's been a win-win situation."

McCullagh is not surprised. Michelob has studied the market; the PGA TOUR has done the same.

"We present to the title sponsors who our golf audience is and how it indexes out against other sports audiences in various categories of influence," said McCullagh.

"We have a terrific audience – we deliver to companies such as Cadillac, Merrill Lynch, IBM, Anheuser-Busch. Because they know exactly who



Fans can learn more about the history of golf, the PGA TOUR and their favorite players at the Michelob 19th Hole Exhibit.

the customer is. And the customer in almost every case parallels a customer that they're after.

PETE FONTAINE PGA TOUR

"We have the best demographic in sports in terms of household income and disposable income, investments, those kinds of things. Our fan is highly educated, generally affluent and very much involved in the game."

Indeed. During last year's TOUR Championship, at San Francisco's Olympic Club, fans who weren't under the fir trees watching the final-round duel between Mark McCumber and Fuzzy Zoeller, McCumber winning in a playoff, invariably were at the "19th Hole," testing the swing analyzers or golf simulators.

Golf
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"At Michelob," Schoen pointed out, "we position ourselves as a tradeup occasion product. For a special occasion. You just won that big contract, want to get out and celebrate. If it's a little more than just an average occasion, Michelob is there for you.

"That's why golf fits. Because it is a more prestigious sport." And a very social sport. Golfers relish conversation, whining about the "ifas, wouldas and couldas," as it were, usually over a cold one, preferably, in this sponsor's case, over a Michelob.

"I think," said Schoen, "the whole sports marketing area is becoming a lot more sophisticated. Consumer product companies like ours – although we've been a leader – well, other companies are learning this can all work.

"It can increase your brand awareness, your brand image and basically help your business overall."

Schoen has been with St. Louis-based Anheuser-Busch 13 years and, in his three years with the entertainment business side of the company, helped bring about Budweiser's deal with the Rolling Stones tours.

He knew it was only rock and roll, but he liked it. Schoen also LIKES golf, which he plays well, and having Michelob as a PGA TOUR Marketing Partner.

"Our sponsorship is for brand awar ness and advertising purposes," Schoe explained.

"It's hard to look at immediate sal as a barometer. That's not what we equate success to. Success to us is foun through a traditional focus group environment. We'll ask key questions abou what they remember about a brand, what they think about a brand, do the remember the sponsorship."

"19TH HOLE" SWING ANALYZER
855s SILVER SCOT

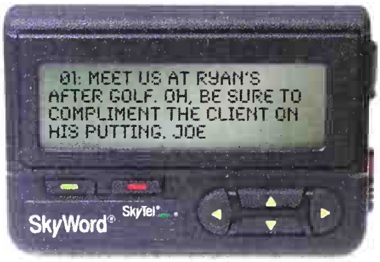
The simulator allows fans to play some of the most famous golf courses on a 9'x10' high-resolution projection screen.

For those who attend TOUR events or watch the weekly ESPN shows, "Inside the PGA TOUR" or "Inside the Senior PGA TOUR," Michelob may be very difficult to forget.

"The matchup between the golf industry and Michelob consumers is better than ever," said Schoen. "And the PGA TOUR package was so enticing, it was something we thought we could build a great relationship with."

Sounds like an arrangement that should be saluted with a Michelob.

Travels great distances to arrive at a designated point in a matter of seconds.



Ditto.

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Help Wanted

SAM GREENWOOD PGA TOUR

The PGA TOUR intern program has provided practi
work exposure for its participants.

BY CHRIS SMITH

Perhaps the names aren't readily recognized, as are those actually playing the PGA TOUR. But the significance of what they represent to the TOUR, and the golf industry in general, cannot be trivialized.

Those students participating each summer in the PGA TOUR's intern program are helping to blaze a vocational trail that very well could lead to a more representative proportion of minorities in the golf industry.

That, at least, was the intention when the summer program was launched in 1992. And though it essentially remains in its infancy, the internships already are churning out an encouraging number of success stories.

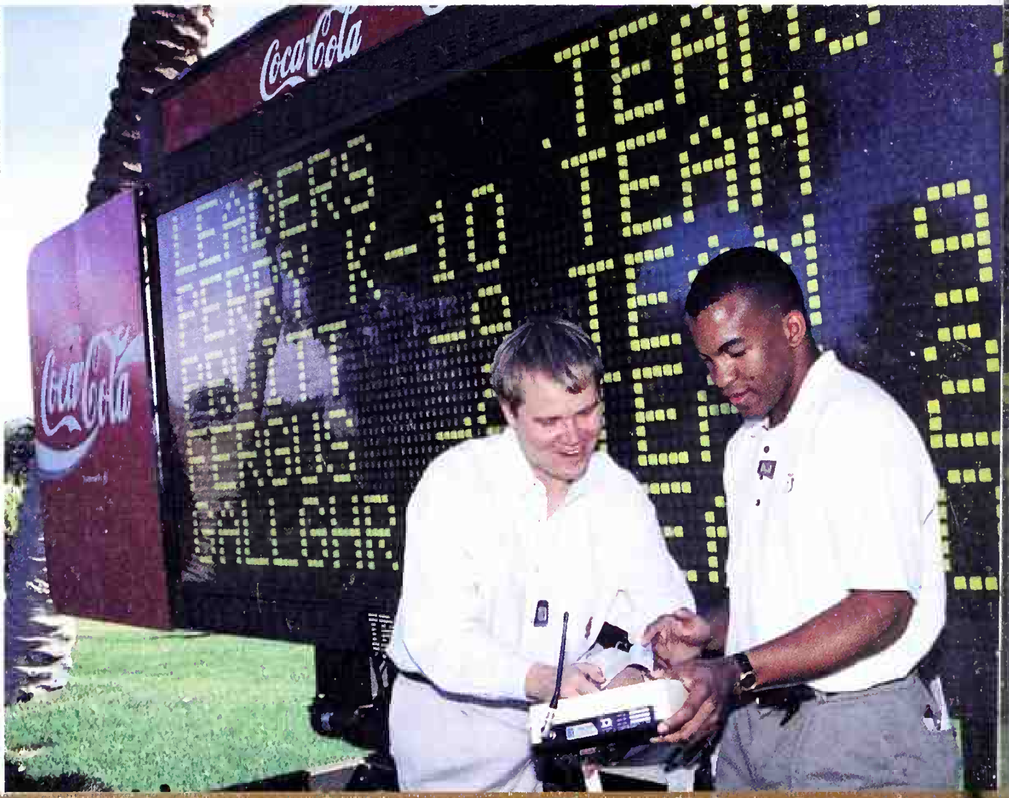
The first three years provided 52 students with practical work exposure to the TOUR, and another 20 are targeted for the summer of 1995. Internships have been created in a number of departments, including communications, corporate marketing, tournament operations, PGA TOUR Productions, food and beverage, maintenance, golf shop operations, data processing and design services.

More than a half-dozen former interns from the first two years have found full-time employment in the golf industry, and others have gone on to related fields.

"Basically, our goal was to begin the move to insure cultural diversity of the work force that would reflect the cultural diversity of the community," says Richard Bowers, the PGA TOUR director of government affairs who now oversees the program. "That is coming about.

"It is a beacon within the industry that it is possible to do this, that the ki are there who want the opportunity. is a very positive effort. And by the co tinuation and growth, it contributes the elimination of the stereotype that golf is an elitist sport."

Consider, for instance, the case of Malcolm Turner, a member of the PG



SAM GREENWOOD PGA TOUR

Mark Mitchell, PGA TOUR media official with Malcolm Turner whose internship led to a full-time position with the PGA TOUR.

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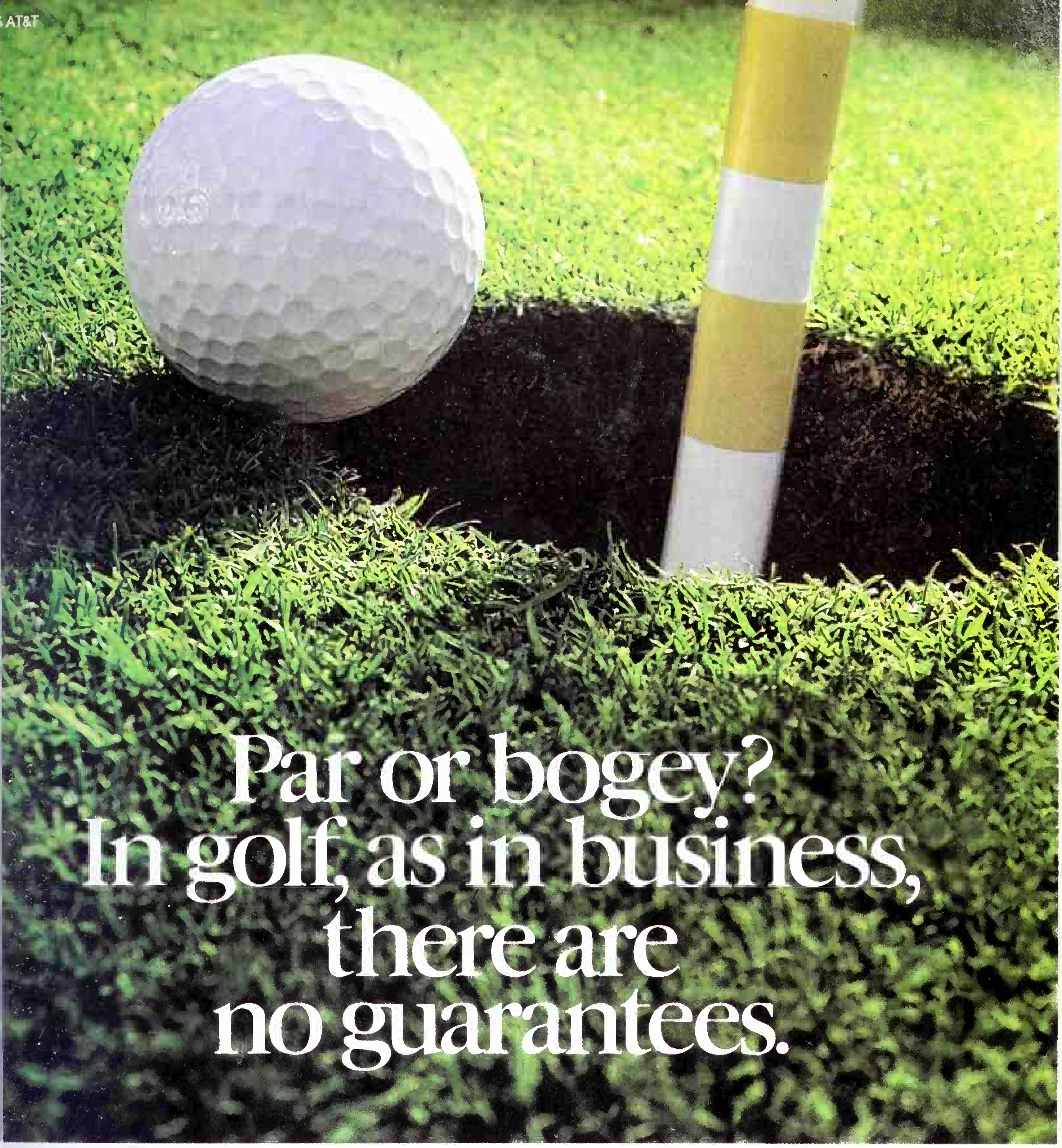

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UR's promotion staff the past two
rs. A Rhodes Scholarship finalist
he University of North Carolina,
rner was accepted to Harvard Law
ool about the same time the PGA
UR offered him a full-time position
he spring of 1993.

He subsequently wrote to Harvard
uesting a deferral, explaining that he
ieved time with the TOUR would
vide valuable experience. Harvard
iged, granting what Turner says was
ry rare two-year deferral.

"I obviously was very grateful they
e willing to work with me on that,"
l Turner, a 23-year-old resident of
tle Creek, MI. "I've had a great time
there; I've had some really great
eriences with the TOUR. Now,
el I'm ready for law school and am
king to enter this fall. It couldn't
e worked out any better."

There's also Princeton graduate
nklin Greene, a South Carolinian
se first hands-on involvement with
TOUR was through his six years
volunteer with the MCI Heritage
ssic. A member of the state champion
h school golf team, Greene interned
he Merrill Lynch Shoot-Out program
993. Now, with diploma in hand,
s overseeing the LPGA Tour junior
f program in Wilmington, DE.

Maria Mills was an honor student in
rts Management at Florida Interna-
al University when she joined the
ern program in 1993, working
Professional Services at the TPC
awgrass. An aspiring professional
fer, the native of St. Thomas was
d full-time following her graduation.

"The intern program gives you a
ahead of everyone else," says Mills,
now is preparing for LPGA Tour
lifying in the fall. "It's not like
e summer jobs where you are the
est person and don't learn a thing.
You are thrown into the middle of what everyone else is working on, so you learn a lot more. You're not just a lackey. You're in there working on major projects."

Dierdra Girardeau of Jacksonville, FL, a graduate of Central Florida University, was a member of the inaugural intern class. Her internship with the PGA TOUR's communications department included an opportunity to work in the press room at the Walt Disney World/Oldsmobile Classic. It was there that she met a Disney official from publicity, who asked Girardeau whether she might be interested in an internship with Disney World. She subsequently interned there for three semesters. After returning to school to earn her diploma, Girardeau was offered a full-time position with Walt Disney World's Florida Resident Marketing Department.

SAM GREENWOOD PGA TOUR

Internships have been created in a number of departments including design services.

"I am full of praise for the PGA TOUR's intern program because of how it helped me," Girardeau says. "Being part of the inaugural group, we were able to help shape its direction. They didn't have us come in there as tokens or just to show everyone they had minority interns. And we didn't just do grudge work. I was responsible for a lot of information and had to step up and meet all expectations. It definitely helped to further our careers."

Others have branched into other sports-related areas. Derrick Heggans, who in 1992 interned on the Senior PGA TOUR Promotions staff, was hired by Cadillac's advertising agency to work on the Senior PGA TOUR account. He since has been hired by management firm Advantage International, where 1993 intern Brian Colbert also is employed.

Additionally, two others had the opportunity to accept full-time employment, but opted to take a different direction. Cedrick Smith turned down a position with the U.S. Golf Association to go to medical school, and Lucien Blankenship declined employment with Advantage International to take the bar exam and practice law.

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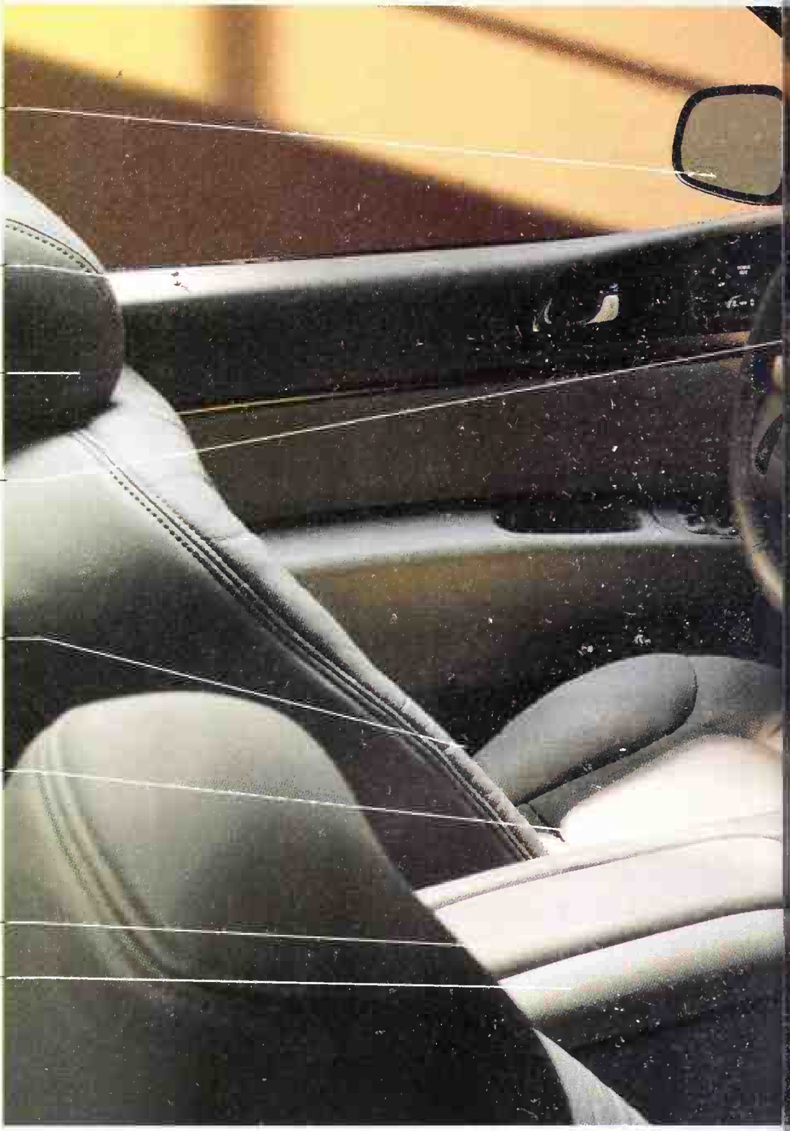

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Many former PGA TOUR interns have found full-time employment in the golf industry and related fields.

So initial feedback from the program indicates success in fulfilling its ultimate objective.

"The PGA TOUR has invested in people, young people such as myself, and exposed them to the game through various opportunities," Turner says. "For me, it provided an opportunity to grow and learn more about the grass-roots business of the PGA TOUR. That experience and exposure can be everything. So without a doubt, I think it is a very positive program and a step in the right direction. I am proof positive."

Consequently, it is helping to fight the stereotype of golf being an elitist sport, an image that more or less was quietly acknowledged before becoming imprinted upon the American conscience by the Shoal Creek incident of 1990. The private country club outside Birmingham, AL, was preparing to play host to the PGA Championship when its discriminatory membership policy was brought to light and swept national headlines.

The PGA TOUR, in fact, already had been discussing ways to create more opportunities for minorities in the industry during long-range strategy sessions. Shoal Creek, though, became the catalytic force that intensified efforts to put a vehicle in place.

"Going back before Shoal Creek, we had discussed the difficulty of attracting minorities on the business side," PGA TOUR Commissioner Tim Finchem says. "We felt we had to work to create diversity. We finally determined that in order to have an impact on the long-term availability, we had to get students interested at an early age."

Then Shoal Creek elevated everyone's consciousness. Following a year of strategizing and analyzing, the PGA TOUR intern program was implemented in the summer of 1992.

"In the year following the Shoal Creek incident, the staff met often to discuss how we could best impact the issue," says Ruffin Beckwith, who created the program. "We talked to a lot of people outside the TOUR, to people in the minority community, college coaches, directors of junior golf programs."

It became clear to Beckwith that the minority community was largely unaware of the opportunities in golf beyond the competitive side exposed on television. One of the reasons there weren't more minorities on the business side is that few ever applied.

"In the final analysis, we decided to take advantage of the fact that we have many diverse aspects to our business," Beckwith says. "We felt that by creating this internship program, we could accomplish two major objectives: to expose to the minority community that there are a multitude of career opportunities in golf, and to identify qualified kids who might eventually come to work for the PGA TOUR or elsewhe in the industry."

A minority-owned firm, Stringer Marketing Group of Washington, D was retained to help distribute appli- tions and screen students. It took ab a year to set up the program and est- lish positions.

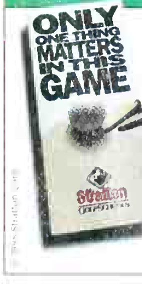
The first year provided eight-wee internships for 14 students. The nex year, 20 students participated. Anot 18 took part last year and about 20 a targeted for the coming summer.

"What's encouraging is that we ca get students to take advantage of th internship availability, students wh have an interest in pursuing opportu- ties in the business," Finchem says. "We are moving in the right directio

As successful as these first years h been, it's only the beginning.

"We are not pumping our chest about it, because it is a slow process Finchem adds. "It's a small step. Bu it's a step in the right direction and consistent with the overall objective creating diversity on the business sid of golf, as we work to establish more opportunity on the playing side. Th longtime objective is to make golf lo more like the rest of the country, and 25 to 30 years, it can become a reality

On the Cover: Bernard Fuchs, an internationa renowned artist and illustrator whose work have graced the pages of every magazine, pr- duced the oil painting of the famed 17th hol at the TPC at Sawgrass, site of THE PLAYE Championship. Only 500 prints of the work numbered and signed by the artist, were ava- able for purchase.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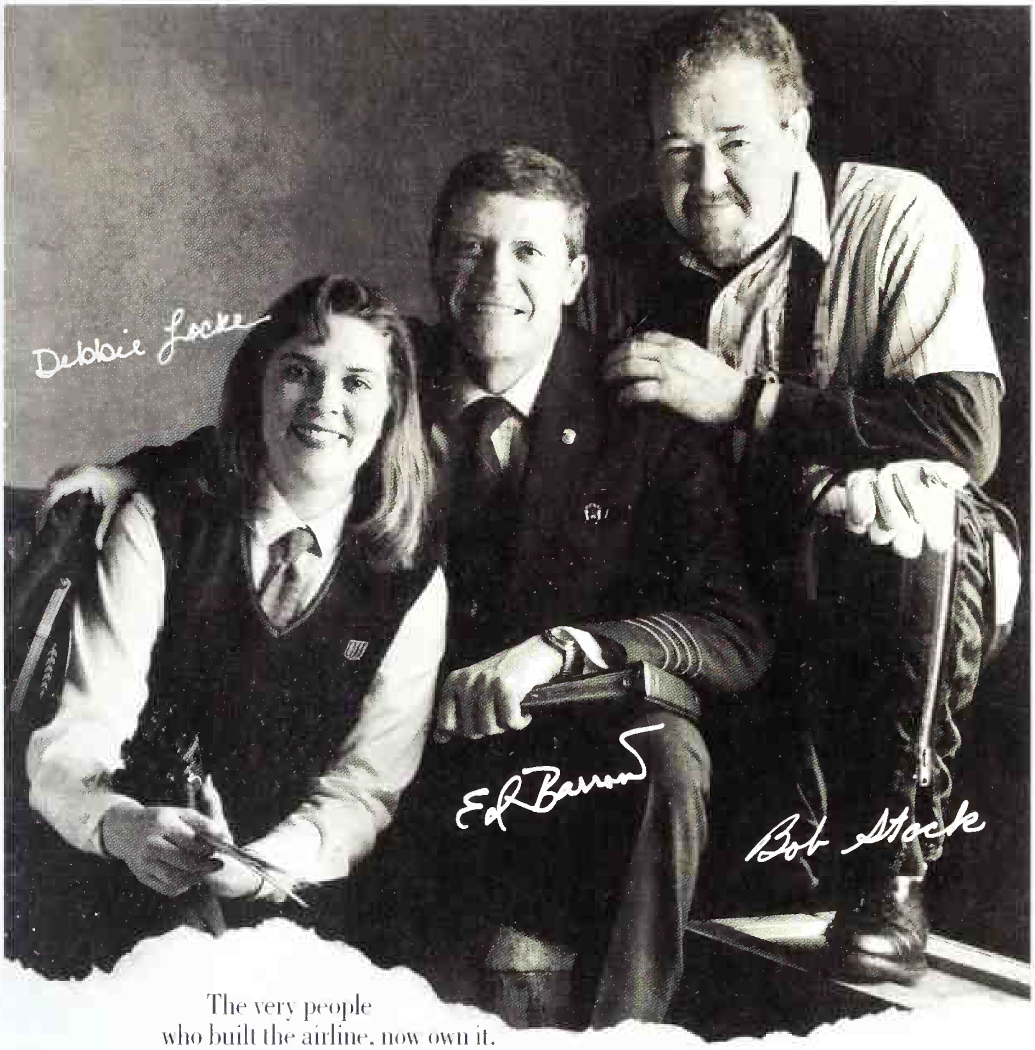
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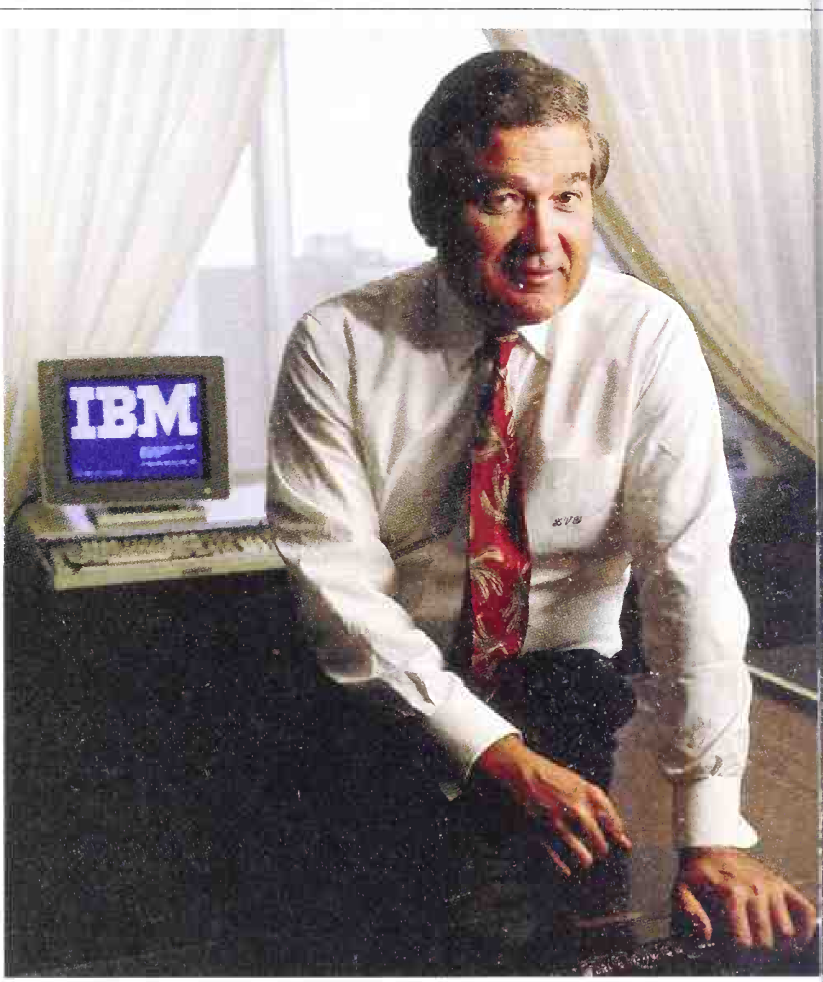
'WE WON'T STOP . . . UNTIL WE FIND OUR WAY BACK'

IBM's Gerstner admits: "There are still a couple of four-minute miles that have to be ru

As IBM begins its third year under Chairman Louis V. Gerstner Jr., the computer giant's turnaround remains a work in progress. His cost-cutting has produced an earnings rebound that has doubled IBM's stock from its nadir. Core businesses such as mainframes and minicomputers are showing surprising strength, and the company is also seeing good results in new markets—such as services and selling components. In anticipation of a strong first-quarter earnings report on Apr. 20, analysts have been boosting their estimates.

But there are problems, too. IBM's $11 billion software business remains in turmoil, and the $10 billion IBM PC Co. is digging out from a disastrous 1994. On the eve of the annual shareholders meeting, Gerstner surveyed his realm in an exclusive interview with BUSINESS WEEK Department Editor Ira Sager.



DANUTA OTFINOWSKI

Q: *Last year, you set priorities for the company: return to profitability, be more competitive, increase shareholder value, and grow. What are the priorities for the next 12 to 18 months?*
A: Well, return to profitability—we've done that. And we've increased shareholder value. But there is a never-ending quest for increasing shareholder value in this company. You see that chart [points to a 1990-94 stock chart]? You see that peak? We won't stop this journey until we find our way back.

Increasing revenue is absolutely essential because this is an industry where if you don't grow, you fall backwards. Competitiveness I would probably translate into an objective of increasing our market share, which is, in effect, the same thing. That is still a very high priority.

Q: *One competitiveness problem has been getting products out on time. The PC company, I'm told, missed every deadline last year.*
A: Well, first let me agree with you that time to market is one of our highest priorities, and one in which we are far from satisfied. The PC company has been the most glaring weakness.

But at the same time, as I think our annual report indicates, nearly half of our hardware sales in 1994 came from products we introduced in the last 18 months. We had a phenomenal new-product-introduction year last year. But I would give us a "C" grade on this because there is still more to do. And the areas where we've got to do better are principally in our PC business and in our desktop software business.

Q: *How critical are those efforts—the PC business, the desktop softwar*
the future of IBM, to the turnarou
A: We consider them very impor
We simply will not accept anything
than success in our PC company a
our software company. And we
see any reason to accept anything
than success. That doesn't mean
we're going to be in every marke
doesn't mean that we have to make
ductivity applications to be in des
software. It doesn't mean that we
to make every client-server applica

But it does mean that we hav
build on some of the very pow
skills we have in databases, in tra

ı processing, in messaging, in collab-ive computing, and in operating sysıs. There's no company in the world t has built more operating systems n IBM. In fact, it's hard to argue ether anyone else has built more n one.

Ve have a lot of money invested in uilding our software company. OS/2 is hottest product in the stores ay. It's increasing share. By the way, : of our software company problem been that we're terrible marketers of ware. Our biggest competi-in software is not a very good techni- company. But it's one of the marketing companies I've ever seen, I've spent 20 years in marketing.

>)ur biggest competitor in tware is not a very good hnical company. But it's one he best marketing npanies I've ever seen”
>
>)UIS GERSTNER, IBM

What about the personal computer iness, where IBM has slipped badly?
Well, our PC company made some improvement in the first quarter. they done? Huh! Far from it. Let tell you something. [IBM PC Co. Prest G. Richard] Thoman made a very, brave decision that I supported: nake a whole lot of fundamental nges simultaneously. We could have e things that kind of allowed us to rn gradually. But we made the deci-, at his urging, to take the shortn hit and really attack the problems. the problems he found were very siderable, and so it's been a rocky 8 0 months.

sense that there is a very clear erstanding today in the division as what they have to do. There's ensiasm to prove to the world that can do it. Yet there are a couple of four-minute s that have to be run before get the gold medal.

How much of what they're g is a model for the rest of company?
The PC company is not the el for the rest of the compa- When I got here, everybody : Look at this hot PC compa- They're doing all the things the rest of IBM should be g. But when you peeled it away, they were doing things that were—thank God—not adopted by the rest of the company.

Q: *You talk about the need for computer makers to deliver real value to customers. What do you mean?*
A: I am probably the only customer who has ever run a significant information-technology company. Most of this industry is run by propeller heads who absolutely love the technology. I spent 20 years buying and using this technology, and I have a great respect for its ability to transform industries and create competitive advantages. But I also know that creating that kind of value requires a lot more than just the pure technology.

Q: *Yet the customers continue to snap up the latest technology....*
A: I would say we are at a very important inflection point right now. More and more customers are saying: "Simply giving me more raw power is not enough." When I talk to customers who are trying to reengineer, they often ask me the following question: "It takes me 36 months to do a major reengineering project. How do I fit your one-year product cycle into my 36-month problem-solving cycle? How do I design systems that are supposed to last, hopefully, for 5 to 10 years on a set of technology that may change in a year?"

We're not going to slow down the pace of technology. We will not change the pace of microprocessor technology, storage technologies, and communications technologies—the three basic drivers of the industry. The answer is to do a better job of packaging technology into workable, long-term solutions for the customer.

Q: *How does this translate into IBM's bringing value to its customers?*
A: We will continue to have people buy off-the-shelf pieces of technology. And you compete there on the basis of who has got the best technology, best price, best delivery. At the same time, the same customer or others are going to say: "I need somebody to really deliver solutions." Solutions involve hardware, software, and what we call services.

One of the most important new demands that our customers are making is for something called systems management. You have a whole set of network management and security issues that require the kind of sophisticated software development that IBM has been known for. And it requires digital network capability, which we also have done for years.

Q: *What do you see as the long-range identity of IBM now?*
A: Our first strategic initiative is exploiting our technology. We have consistently developed the vast majority of the intellectual capital in this industry, whether it was in processors or storage or software or data communications. It's easy to look at technology companies and say: There's Intel and there's Advanced Micro [Devices] and there's EMC. But we've got one of those inside of IBM. And then you look at software companies. Well, we've got one of those, too. And then you go look at services, and there's Andersen Consulting, there's EDS Corp. Well, we're the biggest one of those, too. And networking. You know, the IBM global network is emerging as one of the most important data networks in the world.

Yeah, we've kind of stubbed our toe badly in personal computers. But we're still No. 2. And that's a rather significant position to have. And we haven't given up on No. 1. This was a short-term aberration. Mainframes? People seem to think that business is going to go away. We don't. And our share of that business keeps going up. We're opening the gap between us and competitors.

The answer to your question is, we are going to continue to be an industry leader. We're going to be the company that has the capacity to deliver total

The Score So Far

A look at Big Blue today—and when Louis Gerstner took over

	1993	1995
SHARE PRICE	50	88
RETURN ON EQUITY	None (loss)	18.1%*
EMPLOYMENT	301,542	219,839**
MAINFRAMES AND MINIS	Sales and profit slump	Sales and profits up
PERSONAL COMPUTERS	No. 1 worldwide	No. 2 worldwide, No. 4 U.S.
SOFTWARE	Betting on OS/2	Betting on OS/2

*Dean Witter Reynolds Inc. estimates

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solutions and a multiproduct, multisector approach to the market. There will always be some companies—I call them the meteors—that have some hot product and shoot off for five years or so. Five years later, they're dead on their feet, single-product companies. But I think that, day in and day out, our diversity and our capacity to integrate will be a very powerful tool for us, and for shareholders and customers.

Q: *Do you have the management to translate this into results?*

A: What I've found in IBM is that the very core strengths had always been there and were still there. [The problem] was more the attitudes, the kind of management structures and the management behavior that got built up in the face of success. I call it the curse of success.

So we had to change the way people behaved around here—we didn't have to change IBM's fundamentals. We still had powerful technology. We had very smart people. And we have a geographic reach that others would kill for. Everybody's talking about the age of Asia. Look at the size of IBM's Asian operations and how long they've been there. And Latin America.

We had all these great skills and, despite that, we managed to screw up. So that gets to behavioral issues. I've been fortunate enough to have to only work on the behavioral side. I was also blessed by the fact that you need a crisis to focus on the need for change. Basically what I said to people around here is: We just lost $17 billion and 150,000 people lost their jobs, and the media is throwing us on the junkyard pile. It appears that what we were doing wasn't working. Would you not agree? And, therefore, we ought to try something different.

The ability to appeal to a bunch of smart people, who obviously saw that the old system wasn't working, was very constructive. Then we did things relating to the compensation system and to breaking down the feifdoms. And we had a few public hangings of people who didn't want to get on the new programs. That told everybody we were serious. So it's been a long two years.

Q: *You feel good about where the company's headed?*

A: Yes, I'm feeling good about it because IBM people are feeling good. There's a renewal of spirit in the company that is highly constructive and will be an important part of continuing the transformation. We're all feeling good now, but not complacent. The first person who acts complacent around here is going to get a two-by-four on the side of his or her head.

Science & Technology

RESEARCH

CALL IT THE SUPERNET

vBNS links supercomputers to tackle monster problems

The coolest new place in cyberspace is so cool, it's not even on the Internet. It doesn't have chat rooms or car ads or sexy graphics files or a user-friendly interface or nodes in every major and minor city. What it does have is blazing speed—connections at up to 155 megabits per second, or more than 10,000 times the speed of that 14.4-kilobit modem you just bought for your home computer. It's called vBNS, for very-high-speed Backbone Network Service, and it's run by MCI Communications Corp. for the National Science Foundation (NSF).

vBNS, scheduled to make its public debut on Apr. 24, is a peek into the future of scientific computing. It's not connected to the Internet because browsers aren't welcome. vBNS is strictly for "Grand Challenge" problems that only networks of supercomputers can hope to crack—problems such as predicting global climate change and designing better drugs. vBNS has been quietly getting up to speed for several weeks. It connects five of the most important concentrations of supercomputing power in the U.S. (map, page 125), with lower-speed links for other "meritorious" users via sites in Chicago, New York, San Francisco, and Washington.

vBNS blasts data at speeds that make the Net look like the Erie Canal. But only five of the top U.S. computing centers can communicate at that rate

MCI Chairman Bert C. Roberts Jr. says winning the contract to operate vBNS helps burnish the high-tech credentials of MCI, which will pump an unspecified amount of its own money into the network in addition to the $50 million over five years it's getting from the NSF. "Those of us who do science have been bored to death by the Internet and its speeds for about two yea
says Richard T. Liebhaber, wh
scheduled to retire at the end of
from his job as MCI's chief strategy
technology officer. "Our mind-set
is on full-motion visualization of thi
Liebhaber says. "For that, you ne
gazillion MIPS of processing power.'

Indeed, by networking together
or more top-flight supercomputers,
makes possible som
the largest computat
ever attempted. S
any single supercom
er could do a big
putation alone, bu
might be out of dat
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motes collaboration
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all, it has researcher
static: "In problem
scientific problem
turns out that yo
groping in the dark
you get the insights
pictures that you
only get from conte
rary computers,"
Malvin H. Kalos, director of the Co
Theory Center, a collection of high-
ered iron at Cornell University.

DOUBLE TEAM. One of the first cal
tions attempted using vBNS illustr
its potential. In mid-April, researche
San Diego and Pittsburgh yoked to
er two similar Cray Research
supercomputers—one at each site
calculate global weather patterns.
computer used software from Prin
University to calculate temperat
and current speeds in the ocean, w
the other tended to the atmospher
ing software from the University of

The 1995 Business Week Presidents Forum

21st Century Capitalism New Rules for the Global Economy

The demise of Communism, the fall of trade barriers, and the rise of networked information have unleashed a revolution in business. Market capitalism guides every major country on earth; goods and services flow across borders more freely than ever; vast information networks instantly link nations, companies, and people. The result — 21st century capitalism.

Former President George Bush defines the new era as an opportunity, "This global transformation we have witnessed in recent years has given us a world with a greater potential for peace and economic prosperity than at any time in history."

But President Bush urged an audience of corporate leaders at The Business Week Presidents Forum not to retreat. "Winning the peace and expanding the promise of democratic capitalism are possible only if America continues to lead in the world. We cannot turn inward. We must stay engaged."

Against this backdrop, more than 150 corporate presidents assessed how 21st century capitalism is transforming their businesses.

ner President
rge Bush

Percy Barnevik's "Multidomestic" Corporation

No one knows global like Percy Barnevik. The Asea Brown Boveri ABB president and CEO heads a $25 billion powerhouse operating in 25 countries and employing 210,000 people.

A global monolith? On the contrary. In ABB, Barnevik has created the model 21st century organization — the "multidomestic" corporation. It combines small-company entrepreneurialism with big-company economies of scale — a global paradox. ABB is at once international and local.

"Global players must be insiders," says Barnevik. "ABB is a 'global federation' of national companies employing and managed by their own nationals. All plugged into a global network."

Decentralization helps ABB avoid "big-company syndrome," breaking the company down into 1,000 legal entities and 5,000 distinct profit centers and P&L balance sheets. And with only five managers per profit center and three management layers, ABB is very flat. "We've recreated the small company/entrepreneurial atmosphere within the framework of the big

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"Find out what gets in the way of responding quickly to customers. Then find drivers to drive organizational change."

Alex Young
president and COO,
Thomas Group, Inc.

company. At the same time, when you make this army of 25,000 managers move together, they're a major force."

Barnevik commands that army with an elite cadre of 500 global managers — ABB's central nervous system. They assign contracts, coordinate international purchasing, push standardization, and facilitate technology exchange throughout the corporation.

By deploying global cadets from country to country, Barnevik develops their language skills and heightens their cultural sensitivity. "The ultimate goal is to enable them to create and lead mixed-nationality teams," he says. "Blood is still thicker than water; these managers must respect differences among national cultures while creating a long-term vision that everyone can buy into and be proud of."

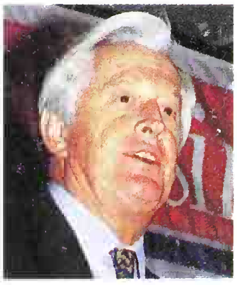
Radical Change, Fast

Slow and steady doesn't win every race. Ask Albin Moschner, president and COO, Zenith Electronics Corporation. In the last decade the company did a slow bleed — one profitable year out of 10, eight consecutive years of shrinking market share. Meanwhile Asian and European competitors were driving down prices with lower costs.

To survive, Zenith had to change — radical Alex Young, president and COO of the consu ing firm, Thomas Group, Inc., set three chan imperatives to help them to do it. "First, Zeni had to commit themselves to radical change; then they had to focus on speed — respondin to customers and changes in the market more quickly; and finally, they needed to identify th driver of the desired change: in this case it wa cycle times."

Says Moschner, "We were losing an averag of 10% of additional business opportunities e month because our cycle times were too slow. We simply could not respond quickly enough demand changes."

So the company re-engineered primary cycle processes and then focused on getting n products to market faster. By improving desig methodology, shortening development time, a cutting the number of design teams in half, th reduced cycle time for product development. They redeployed the freed resources to devel innovative products and product enhancemen features to differentiate its products — a key competitive advantage. The result was a prod tivity improvement of almost 100%.



"Domestic diversification was not enough. International expansion was the best growth strategy we could devise."

Lee M. Gammill, Jr.
vice chairman,
New York Life
Insurance Company

Young says the Zenith lesson is fund mental. "Ask yourself what gets in the way responding quickly t customers. Then fin drivers to drive chan down and across you entire organization. Doing this today will substantially increase your global competiti ness in the future."

New York Life Insurance Company wanted to change by taking advantage of increasing customer demand in foreign m kets. "The virtually unlimited marketplac we enjoyed domestic for so long is a thing of the past," explains Lee M. Gammill, Jr., vice chairman, New York Life Insurance Company. "Domestic diversification is not enough. International expansion provided th best growth potential of any strategy we could devise."

BROWN LETS THE NUMBERS SPEAK FOR THEMSELVES

Ron Brown
Secretary of Commerce

Secretary of Commerce Ron Brown, under fire for his dealings with First International Communications, fires back in defense of the Clinton Administration's economic record. Brown points to the numbers — six million new jobs, 4.6% GDP growth, 2.8% inflation — as proof that the Clinton economic policy has been better for business than business admits.

"In the short term, judge us by the numbers," says Brown. "Economic growth, corporate earnings, investment spending, housing starts, durable goods orders, unemployment, inflation — whatever statistics you desire — what ought to be up is up, what ought to be down is down, and we've got a plan to keep it that way."

The plan is a four-part long-term strategy to encourage private investment, educate the workforce, open foreign markets, and spur investment on innovative technologies.

Brown says the strategy is in step with the massive realignments underway in the global economy. "This is a time of extraordinary change and opportunity. It requires new ways to approach the international marketplace. I'd even like to present an exotic notion — that corporate America ought to be natural allies with this administration."

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In the last 15 years,"
mill says, "New
Life has gone from
ld-line mutual life
rance company sell-
ndividual and group
nd health insurance
lucts, annuities, and
ions, to an interna-
l, multi-line financial
ces company." That's radical change.

"To compete globally, we're not just selling the same products in more countries; we're creating new solutions to meet the varied needs of customers worldwide."

Clifford A. Jenks
executive vice president,
Zenith Data Systems

Home Depot: irtual Corporation

phenomenal success of The Home Depot is
orted by a web of state-of-the-art technology
es:

- deo teleconferencing centers facilitate
mmunication among five divisions and
ying offices
- -line linkages to freight providers track
oming freight status
- frame-relay network allows movement of
es, inventory, and pricing data daily among
me Depot's 321 stores
- UI software on laptops provides sales and
re performance data to key managers
- ini computers link point-of-sale terminals
LAN
- Electronic links speed the flow of merchandise to stores

These technologies cut lead time, enhance communication, and track inventory. Andy McKenna, president, Midwest division, says the Home Depot's high-tech machine has delivered an annual compound growth rate of 43%, making the $7 billion company the behemoth of the do-it-yourself home-improvement industry and a model of 21st century capitalism.

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GE's Family Values

Boundarylessness. Speed. Stretch. From Peoria to Bombay, ask any GE employee what they mean and you'll get the same answer. They're the values driving GE's global expansion and creating a truly global corporate culture. "When all is said and done," says GE Appliances President and CEO J. Richard Stonesifer, "lines on paper, organizational charts, and books on management techniques won't carry the day. What will win is a boundaryless culture with empowered people striving to stretch and excel every day."

The GE lexicon:

Boundarylessness – an organization-wide obsession for finding a better way, uninhibited by organizational walls, rank, or geographic boundaries.

Speed – the critical enabler of boundarylessness, essential in a global environment with real-time information changes.

Stretch – the inspiration required for the other two. Simply stated: nothing is impossible.

But it's not for everyone. Says Stonesifer, "These values can only flourish in an environment where everyone is totally committed to outperforming every one of our global competitors in every market."

The 1995 BusinessWeek Presidents Forum

QUICK TALLY SURVEY SAYS . . .

✓ Using **Quick Tally's** anonymous interactive polling system, delegates at **The 1995 Business Week Presidents Forum** weighed in on a host of issues defining 21st century capitalism:

My business is:	
Greatly affected by foreign change	**44%**
Somewhat affected	**35%**
Slightly affected	**20%**
Untouched by the global flux	**1%**

My globalization 1995 vs. 1990:	
Major foreign expansion	**57%**
Minor, "testing the water"	**31%**
Still wholly domestic	**10%**
I've reduced foreign activity	**2%**

My globalization 2000 vs. 1995:	
Major foreign expansion	**74%**
Minor, "testing the water"	**20%**
Still wholly domestic	**7%**
I'll reduce foreign activity	**0%**

My greatest single concern about doing more business in developing countries is:	
Policy shifts/cloudy legal issues	**35%**
Far-flung, multi-lingual activities	**15%**
Plenty of growth in the U.S.	**11%**
Cross-cultural HR	**11%**
Can't beat the competition there	**7%**
Currency risk	**6%**
Corruption	**6%**
Costs/access to capital	**6%**
Coups, wars, anti-Americanism	**2%**

I'd rather employ an American than a foreigner:	
Rather an American	**49.5%**
Doesn't matter	**50.5%**

In-hall polling courtesy of Quick Tally, Beverly Hills, California.

The 1995 BusinessWeek Presidents Forum

Find the Transformation that Fits

The company knew it had to do something. Competition had lowered prices 35% on a key product. Profits fell 25% at home; revenues dropped 17%. So in the middle of 1992, six senior executives of ICI's U.S. agribusiness shut themselves up in a house until they emerged with a plan. At the same time, executives in the U.K. decided to de-merge ICI into two businesses. ICI's bioscience businesses — agrichemicals, pharmaceuticals, and specialties — would split from ICI to create a new company, Zeneca.

De-merger is one of several options corporations are exploring to unlock shareholder value and release potential within the business.

Gemini Consulting was called in by the U.S. agrichemical company, Zeneca Ag Products, to help address some of these issues. Zeneca Ag Products President Robert Woods recalls that getting employees to buy in to the plan was the first step. "We weren't looking to reduce a certain number of people, we were interested in getting the business to run itself from a cash point of view as efficiently as possible. We had to convince people to put the organization under a microscope and that this was essential in order to meet the target of the new Zeneca."

With assistance from Gemini Consulting, Zeneca Ag Products formed a team of employee from several management levels to keep employe focused on making processes more efficient, adopted the SAP software system, and defined a new externally focused vision for the company.

"We needed to understand the customer bette so that his needs could direct our organization change," says Woods. So Zeneca set performanc goals and kept workers focused on them to help g them through the trauma of reorganization. By th end of 1994, one year ahead of schedule, Zenec Ag Products has surpassed its goal of RONA improvement through both significant increases i sales and profits and a large reduction in the work ing capital positions held throughout the year.

"The challenge for Zeneca and other corporations is to get into a mode of continuous improvement," says Francis Gouillart, senior vice-president, Gemini Consulting. "Companies must convince their people that change isn't bad it's necessary for survival. Improving continuousl by setting stretch goals at various levels each year i the only way for companies to remain competitive."

"Companies must convince their people that change isn't bad, it's necessary for survival."

Francis Gouillart
senior vice-president,
Gemini Consulting

Martin Keohan is a New York–based business writer.

DERIVATIVES: THE REAL STORY

Richard C. Marston
The Wharton School

Widely publicized horror stories of derivatives-gone-bad have provoked distrust among many corporate executives. But based on the recent Wharton/Chase Survey of Derivative Usage Among 530 U.S. Non-Financial Firms, Richard C. Marston, director of The Wharton School's George Weiss Center for International Financial Research puts derivatives in perspective.

Are derivatives being abused?

"What we are not seeing is the use of these derivatives to deliberately speculate on interest rate or exchange rate fluctuations. For the most part what we find is that corporations are doing with derivatives what they should be doing — hedging commitments, hedging future transactions, reducing exchange risk, and reducing interest rate risk."

Do firms understand enough about derivatives?

"Over 50% of the firms are concerned that their firms do not understand enough about derivatives. Since derivatives are almost exclusively used to manage risk, it is crucial that executives be able to justify those positions to boards. Lack of understanding is a serious problem."

What can corporations do to protect themselves from undue risk?

"There needs to be greater accountability on the part of the treasurer to the board of directors. More than 50% of the firms surveyed still do not have a set schedule for reporting on derivatives positions. Boards of directors need to understand the use of derivatives better, and treasurers need to really explain what is being done within the firm to control risk."

What advice would you offer corporate executives?

"Information clarifying derivatives positions can be reported to the board of directors very easily if it is provided by the banks who sell the derivatives. If you are dealing with a complex derivative, insist that the bank provide information on what happens if interest rates or exchange rates change. *Get it on paper.*"

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The coolest new place in cyberspace is so cool, it's not even on the Internet. It doesn't have chat rooms or car ads or sexy graphics
s or a user-friendly interface or nodes
every major and minor city. What it
s have is blazing speed—connections
up to 155 megabits per second, or
re than 10,000 times the speed of
t 14.4-kilobit mo-
n you just bought
your home comput-
It's called vBNS, for
ry-high-speed Back-
e Network Service,
d it's run by MCI
mmunications Corp.
the National Sci-
ce Foundation (NSF).
vBNS, scheduled to
ke its public debut
Apr. 24, is a peek
o the future of sci-
tific computing. It's
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nks for other "meri-
rious" users via sites
Chicago, New York,
an Francisco, and
Vashington.

MCI Chairman Bert
. Roberts Jr. says
inning the contract
o operate vBNS helps burnish the high-
ech credentials of MCI, which will pump
n unspecified amount of its own money
nto the network in addition to the $50
nillion over five years it's getting from
he NSF. "Those of us who do science
ave been bored to death by the Inter-
et and its speeds for about two years,"
ays Richard T. Liebhaber, who is
cheduled to retire at the end of May from his job as MCI's chief strategy and technology officer. "Our mind-set now is on full-motion visualization of things," Liebhaber says. "For that, you need a gazillion MIPS of processing power."

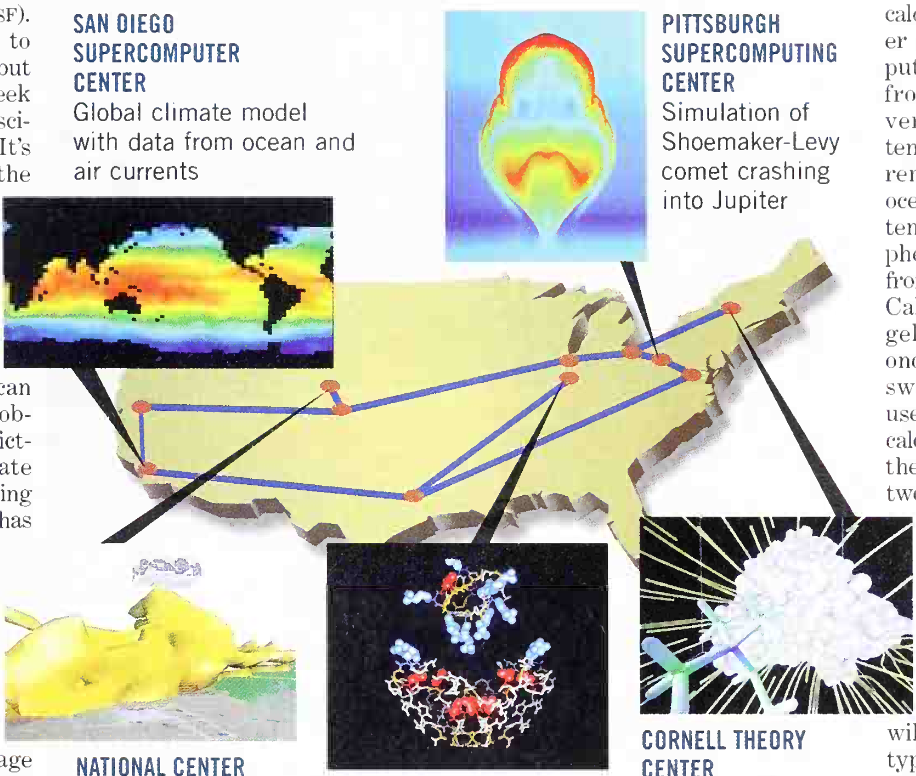
Indeed, by networking together two or more top-flight supercomputers, vBNS makes possible some of the largest computations ever attempted. Sure, any single supercomputer could do a big computation alone, but it might be out of date by the time it was completed—as in a forecast today of yesterday's weather. vBNS also promotes collaboration by transmitting ultrahigh-fidelity video images so researchers in different cities can watch a virtual experiment as it unfolds inside a computer. All in all, it has researchers ecstatic: "In problem after scientific problem, it turns out that you're groping in the dark until you get the insights and pictures that you can only get from contemporary computers," says Malvin H. Kalos, director of the Cornell Theory Center, a collection of high-powered iron at Cornell University.

DOUBLE TEAM. One of the first calculations attempted using vBNS illustrated its potential. In mid-April, researchers in San Diego and Pittsburgh yoked together two similar Cray Research Inc. supercomputers—one at each site—to calculate global weather patterns. One computer used software from Princeton University to calculate temperatures and current speeds in the ocean, while the other tended to the atmosphere using software from the University of California at Los Angeles. Every 10 seconds the Crays swapped results and used the data for new calculations. Massaging the two programs so two remote computers could use them together took years of "hand-tuning," says San Diego staff scientist Bilal Chinoy. Eventually, he says, the remote computers will be of different types, so each can focus on the type of calculation it's best at.

The weather at your local airport, rather than over some ocean, is among the vBNS projects planned by the National Center for Atmospheric Research in Boulder, Colo. NCAR's Aviation Weather Development Laboratory hopes to use vBNS to aid aviation by improving the ability to predict killers such as wind shear and ice storms. That project, however, is endangered by expected cutbacks in funding by the Federal Aviation Administration, says William P. Mahoney, the aviation lab's manager.

Way Cool Science on the Next Internet

vBNS connects five U.S. supercomputing centers at a blazing 155 million bits of data per second. The new network is funded by the National Science Foundation and operated by MCI Communications



SAN DIEGO SUPERCOMPUTER CENTER
Global climate model with data from ocean and air currents

PITTSBURGH SUPERCOMPUTING CENTER
Simulation of Shoemaker-Levy comet crashing into Jupiter

NATIONAL CENTER FOR ATMOSPHERIC RESEARCH
Boulder, Colo.
3-D display of heavy rain (yellow blob) on approach to airport

NATIONAL CENTER FOR SUPERCOMPUTING APPLICATIONS
Urbana-Champaign, Ill.
A scorpion venom molecule descends on a human cell molecule

CORNELL THEORY CENTER
Ithaca, N.Y.
Model of enzyme that decomposes neurotransmitters after their work is done

MAP BY ROB DOYLE/BW

As You See It
intel inside pentium

Create multimedia presentations.
Crunch financial planning scenarios.
Manage complex documents.
Share ideas face to face.
Etc., etc., etc.

Today's business software, from suites to groupware, places great demands on your PC. And wi
even more sophisticated programs already being developed, that demand is only going to increas

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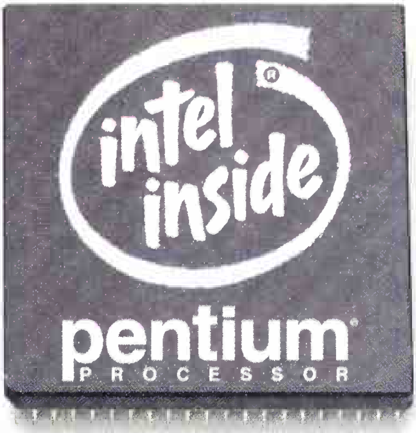
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pentium®
PROCESSOR

Do you have the power?

nately, an Intel Pentium® processor-based PC gives you the power to run today's demanding PC software while still having plenty in reserve for tomorrow's.

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Developments to Watch

EDITED BY OTIS PORT

CHOCOLATE, GARLIC, AND BEEF FAT: EAT UP?

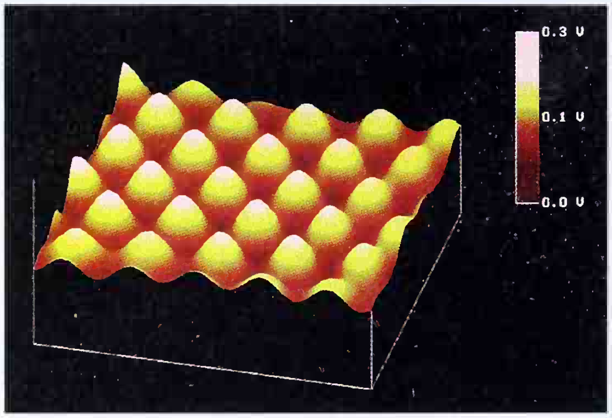
FOLKLORE HAS LONG REgarded garlic as good for you. The first support for this notion was evidence that garlic kills cultured human cancer cells in the lab. Now, researchers at Pennsylvania State University have shown that a compound in garlic, diallyl disulfide, can shut down or kill human colon cancer cells transplanted into mice. The experiments were performed by Sujatha Sundaram, a PhD nutrition student, and department head John A. Milner. They presented their results at a conference in Atlanta on Apr. 12.

On the other hand, another Penn State team has debunked a different piece of accepted wisdom. Associate professor Yu-Yan Yeh and his student, T. K. Pai, reported that saturated fat in beef and chocolate may not be so terrible after all. In fact, they may help lower "bad" cholesterol. Rat liver cells were treated with fatty acids from palm oil and coconut oil, or stearic acid from chocolate and meat. The latter resulted in much lower levels of triglyceride—a precursor to bad cholesterol.

TRUTH THAT'S STRANGER THAN FRICTION

RESEARCHERS AT OHIO STATE UNIVERSITY HAVE MEAsured the friction of one atom rubbing against another—and it's not what textbooks say it should be. At the atomic level, explains Bharat Bhushan, head of OSU's microtribology work, the classical theory of friction doesn't hold up. So for tomorrow's nanotechnology products, which will get stitched together atom by atom, a new theory of friction will be necessary. A paper co-authored by Bhushan in the Apr. 13 *Nature* outlines the implications—not all of which are in the distant future.

Within five years, Bhushan believes the new theory of friction could yield far smaller computer hard drives. His team has tested supersmooth aluminum surfaces, similar to the platters used in hard drives, that were lubricated with a film only one molecule thick. The film resisted abrasion 80 times better than predicted. Thus, a hard drive's read/write head could be reduced to a fraction of its current size and moved closer to the disk. This would decrease the size of the area needed to store bits of data, increasing capacity by as much as 400 times.



IT'S A DRAG: *Graphite surface after abrasion*

HOW TO SOUP UP SUPERCONDUCTORS

IT HAS BEEN NEARLY A decade since the world was shocked by the discovery of "warm" superconductors—materials that carry current without any resistance at relatively high temperatures. Unfortunately, that breakthrough hasn't yet led to major commercial products, in part because the materials can't carry enough current.

Now, researchers at Los Alamos National Laboratory have broken through a key barrier. At a scientific meeting on Apr. 19, they announced development of a flexible, ribbon-like superconductor that can carry more than 1 million amperes of current per square centimeter of "wire." That's 100 times more than the previous record.

There's nothing unusual about the basic idea: depositing a layer of superconducting ceramic onto an inexpensive nickel-alloy tape. The secret is in between. Before the ceramic is put down, the nickel surface is primed with a layer of cubic zirconia. The extra layer keeps the ceramic crystals aligned, and that ensures higher current capability.

Now, predicts team member Xin Di Wu, superconducting wire will finally find widespread applications, ranging from smaller magnetic resonance imaging (MRI) machines to better motors that can be cooled with inexpensive liquid nitrogen.

NANOTECH TOOLS FOR TOMORROW'S TEENY ROBOTS

A DECADE AFTER BIG BLU
1981 invention of the sc
ning tunneling microscope
STM, IBM researchers dem
strated that an STM's poi
tip can do more than j
trace the contours of in
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can also pick up and m
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scientists at Cornell Univ
sity have made an ultrasm
STM that could be the fo
runner of minuscule mach
tools for the nanotechnol
era.

Nanotech visionaries p
dict that tiny robots and c
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built atom by atom. S
molecular-scale robots co
probe and repair DNA or h
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bloodstream. But today's S
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your thumb.

To make drastically sma
STMs—smaller than
heads—Cornell's Noel
MacDonald, a professor
electrical engineering,
harnessed the technol
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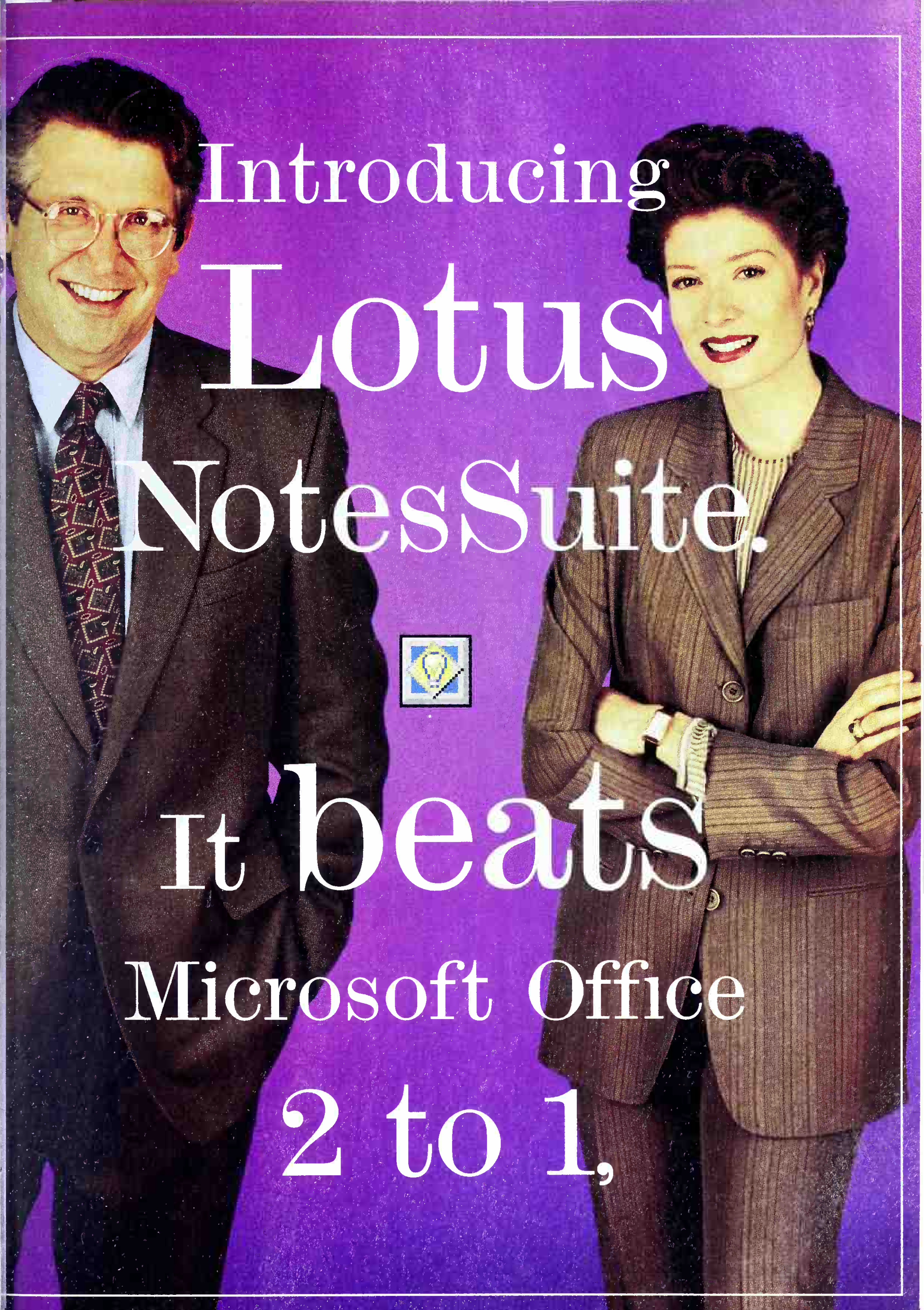
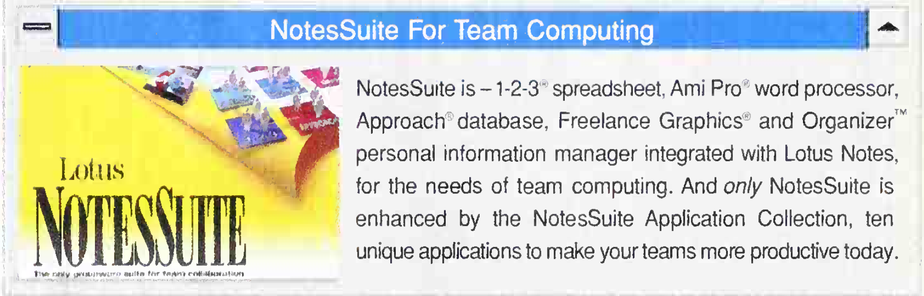
conductors and built tran
tor-size silicon motors. So
ture silicon chips could
packed with batteries of S
turning chips into nanot
factories. Cornell is alre
working with TMS Techn
gies Inc. in Ithaca, N. Y.
license the technology.

ILLUSTRATION BY LINDA BLECK


Introducing
Lotus
NotesSuite.
It beats
Microsoft Office
2 to 1,

Not to mention
10 to 1,
27 to 1, and
1282 to 1.

We have nothing against Microsoft® Office. And if you're an individual who works alone, then you probably have nothing against it either.


NotesSuite For Team Computing
Lotus
NOTESSUITE
The only groupware suite for team collaboration

NotesSuite is – 1-2-3® spreadsheet, Ami Pro® word processor, Approach® database, Freelance Graphics® and Organizer™ personal information manager integrated with Lotus Notes, for the needs of team computing. And *only* NotesSuite is enhanced by the NotesSuite Application Collection, ten unique applications to make your teams more productive today.

However (and it's a big however), if you think the most productive way of working is by communicating, collaborating and sharing information with other people, you need the only business solution created to make teams more productive.

Introducing Lotus® NotesSuite,™ the powerful new combination of SmartSuite,® our five leading business software applications for the desktop, integrated with Lotus Notes,® the groupware standard, plus ten unique applications to enhance team productivity. They're optimized for the computing needs of teams, whether it be a team of two, of 1282, or even more.

With The Team Computing Benefits Of NotesSuite You Will Fully Realize The Potential Of Your People. Everyone, at every level, will be a contributor, a collaborator, a true colleague. Imagine, for example, being able to expedite the budget process by having all parties work on the same spreadsheet simultaneously. Or being able to create a database filled with new product information, sales presentations and customer profiles that can be accessed remotely and updated continuously by members of a sales team no matter where they happen to be. People and groups of people will feel empowered. Because, for the very first time, they are empowered.

To find out more about how Lotus NotesSuite is helping successful companies become more competitive, get our FREE video, "Team Computing: The Art and Science of Collaboration," by calling 1-800-TRADE-UP, EXTENSION A737.* Your company can be using the new Lotus NotesSuite for as little as $299.** Do it today, the team is counting on you.

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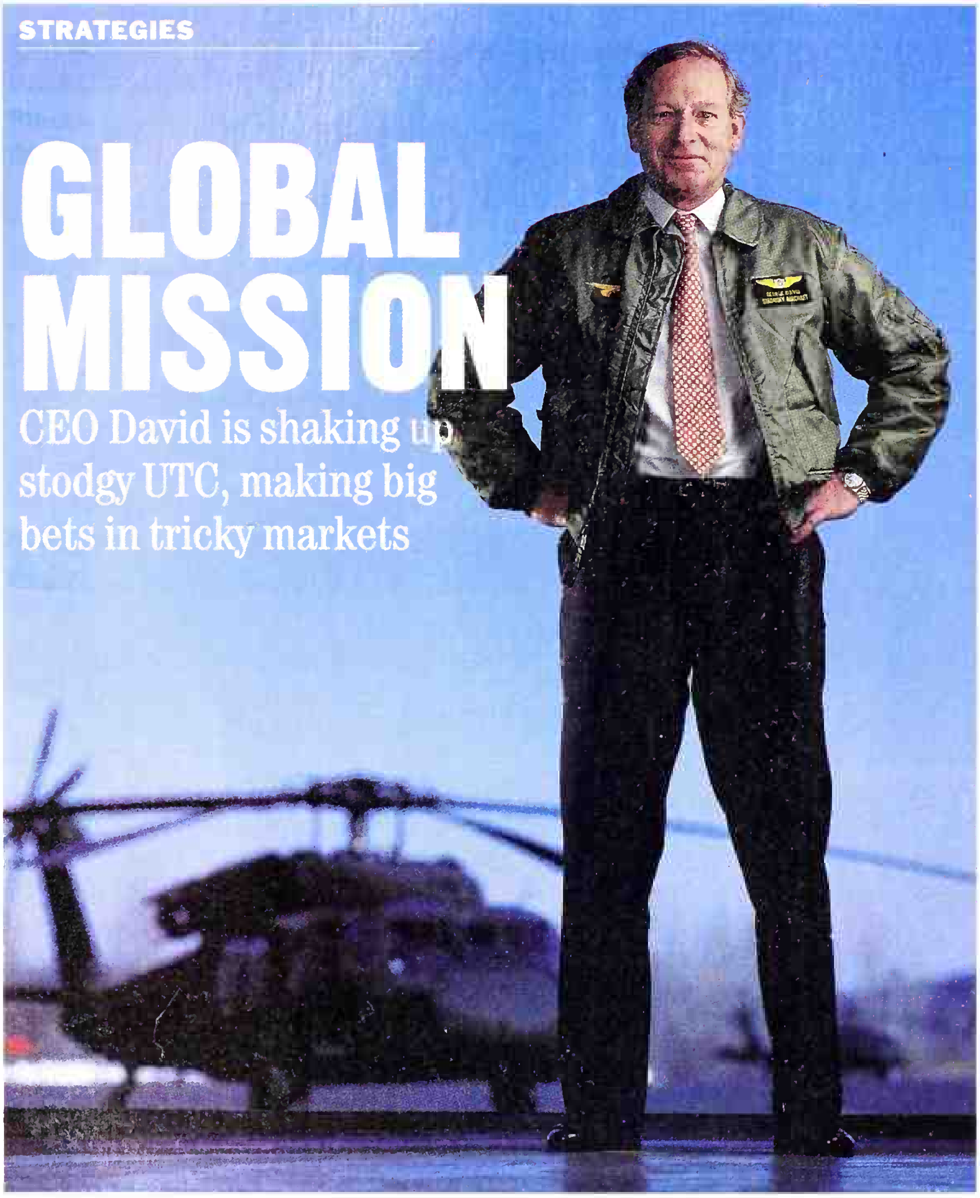
STRATEGIES

GLOBAL MISSION

CEO David is shaking up stodgy UTC, making big bets in tricky markets



BRAD TRENT

FIERCE COMPETITOR: *David pushing the "Otis model"*

George David hates to lose. In a week of international sailboat racing off Key West, Fla., in January, his $1 million, custom-built, 45-foot craft missed first place by a mere 40 seconds. The United Technologies Corp. chief executive, who captained the boat himself, now dreams of adding a laser range finder like those used in America's Cup races to give his boat an edge. In sailboat racing, David explains, "you win with preparation and teamwork." Business, he adds, "is sailboat racing on a larger scale."

From headquarters in Hartford to operations scattered in 183 countries, employees of United Technologies are beginning to grasp that message. Since taking over as CEO a year ago, David has been spreading his sense of competition throughout the stodgy, inbred $21 billion conglomerate. Clocking more than 250,000 miles a year to meet with workers and managers from Manhattan to Moscow, David aims to whip his company's six units—Pratt & Whitney engines, Otis elevators, Carrier air conditioners, Hamilton Standard aviation systems, Sikorsky helicopters, and UT automotive systems—into shape.

It is a painful process, fraught with risk. Old-school managers, among others, are paying a huge price. No more can the hierarchical, inflexible style of its long-dominant Pratt & Whitney engine unit drive the company, David says. Now, UTC must adopt the commercially driven, internationally oriented approach of its Otis Elevator Co.—what David calls the "Otis model." That means elevator people are moving into key positions in managing the proud old jet-engine business and other unit

It also means placing hu bets on such tricky markets Russia, China, and Vietna even while David takes he from unions for hollowing o UTC in Connecticut (page 13 And though the company ge a hefty 60% of its sales outsi the U.S., profits can be elusiv In the former Soviet Unio UTC has 15,000 workers and not repatriating any profit.

David and other top mana ers argue that they are doi what a once U.S-dependent d fense giant must do to surviv Says Otis President Jean-Pier van Rooy: "It's a very cle strategy—recalibrating t company not only toward inte national but toward more co mercial business."

NUMBERS MAN. David doesn underestimate the challeng "There's no overnight chang It changes a micro-inch a da But the micro-changes have b gun to add up. The compa surprised Wall Street in 19 with a 20% increase in ear ings, to $585 million, on just 1% rise in sales, to $21 billio David expects another 20 earnings increase in 1995 commercial business grows a cost-cutting at Pratt flows the bottom line. "David is doi the right thing," says Lehm Brothers Inc. analyst Joseph Campbell. "The next few yea should be pretty good."

A fiercely competitive man, Davi 53, walks around with blue-ring binde that lay out just where UTC stands different measures: percent of sales fro international operations, return on a sets, return on equity, operating incom cash flow. He developed his fondne for number-crunching while moving u at UTC. He joined Otis as a corpora planner in 1975, then oversaw jobs Latin America and Asia before bei named CEO in 1986. In 1992, he w named president and chief operating o ficer of UTC, becoming CEO in 1994.

For David, the "Otis model" is t key to boosting UTC's performance. T Otis mind-set is international, entrepr neurial, quick-moving, and custome driven. UTC relies mostly on non-Ame icans to manage the company sprawling global operations, while kee

3.2
CÔNG TY KINH DOANH
ĐỒNG HỒ - THIẾT BỊ VĂN PHÒNG

UTC MOVED QUICKLY TO OPEN OFFICES IN VIETNAM

David doesn't underestimate the challenge: UTC "changes a micro-inch a day," he admits

g oversight through ad-
nced communications.
npowering operating
inagers is crucial, and
adquarters staff in Hart-
rd has been halved, to
0, since 1990. "I'm a
mpant believer in decen-
ilization," David says.
David learned some of
ese lessons in the 1970s,
ien he helped build up
is' joint venture with
atsushita Electric Indus-
al Co., Nippon Otis. He
ked Masaharu Matsushita, chairman
Japan's largest electronics conglomer-
e, for advice, and Matsushita suggest-
that Otis aim its all-out focus on
ality and technology not just at pur-
asers but at elevator users, too. David
ganized a team to deal with the Japa-
se market. "Japanese consumer confi-
nce in the quality of Nippon Otis ele-
tors rose rapidly," says Matsushita.
e union has been financially success-
, too, with revenues in 1994 of $740
llion—up 24 times from 1975.
Later, through his work in China, Da-
l learned how to play in emerging
arkets. The idea is to get into a mar-
t early, commit enough resources for
al partners to take you seriously,
am up Western and local managers—
d be patient. Says Bruno Grob, head
Otis' European operations: "We have
hilosophy that when something opens
, we have to be there."
The strategy worked in China, where
avid negotiated joint ventures in the
rly 1980s. Otis had sold its first elevator
China at the turn of the century but
s forced out after the 1949 revolution.
hen China opened up, David argued
plunging back in. His enthusiasm met
th some misgivings among board mem-
rs. But Otis bought 30% of the Tianjin
evator Co. for $1.5 million in 1984 and
er bought an additional 14%. Today,
is sales in China exceed $250 million—
times a decade ago and half of UTC's
total sales there. Overall, UTC's annual operating profit in China is $60 million.

Now, David is extending the Otis model. He is pushing all six UTC companies into emerging markets, where demand should grow for airplane engines, car parts, and air-conditioning—as well as elevators. The Otis model means "we are endlessly patient," he tells his managers. "We wait forever."

"CRAPSHOOT." Perhaps the ultimate test of his vision will be Russia. Though Otis and UTC are betting big on the former Soviet Union, it hasn't been smooth sailing so far. From 1990 to 1992, Otis launched four joint ventures to make and service elevators, while Pratt & Whitney is working with Perm Motors to improve engines for the Aeroflot fleet and with the aircraft maker Ilyushin to modernize its large passenger jets. Altogether, UTC has committed $250 million, of which about $100 million has been invested. But with the state-of-the-art plant Otis built in St. Petersburg operating at barely a quarter of capacity, profits will be some time in coming. "It's a very long crapshoot," David concedes.

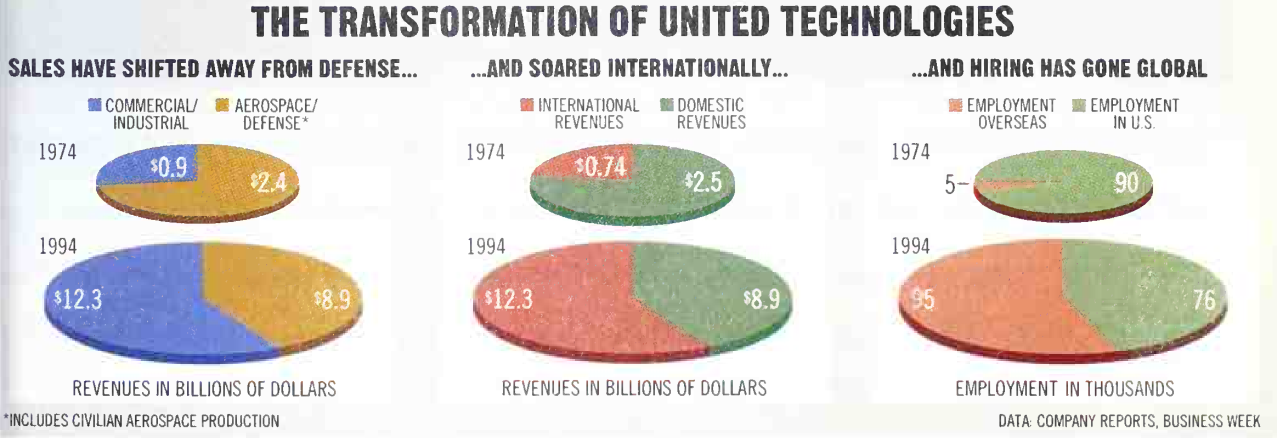
Still, David is moving UTC even further afield. Otis opened a new elevator factory in Malaysia in 1993, and it moved to open offices in Vietnam the day President Clinton reopened commercial ties there in 1994. Chasing after Otis, Carrier is also pushing into Asia.

Internally, David's energies are focused on convincing managers that the "Otis model" is the key to UTC's future. The engineering mind-set, reflected by Pratt's dependence on big capital expenditures and long lead times, is still second nature to many UTC managers and workers. And though Carrier, Otis, and Sikorksy helicopters enjoy leading positions in their industries, complacency remains a problem at Pratt.

David wants products made more quickly, at less expense. In redoing its product line, Carrier designed simpler, more easily maintained air conditioners with fewer parts. Hamilton Standard has sped development time for new aviation products from four to two years. Meanwhile, David is relentlessly cost-cutting—especially at Pratt.

That long-dominant unit, in fact, is where resistance is highest. Privately, Pratt people question how you can build a jet engine the same way as an elevator. They ask how such a capital-intensive, high-tech business as jet engines can adopt the informal mode of an Otis. But David has no time for naysayers: "There are some things about business that Pratt needs to be alert to," he snaps. "The days of building engines in the U.S. and laying them on the heads of innocent foreigners are long over."

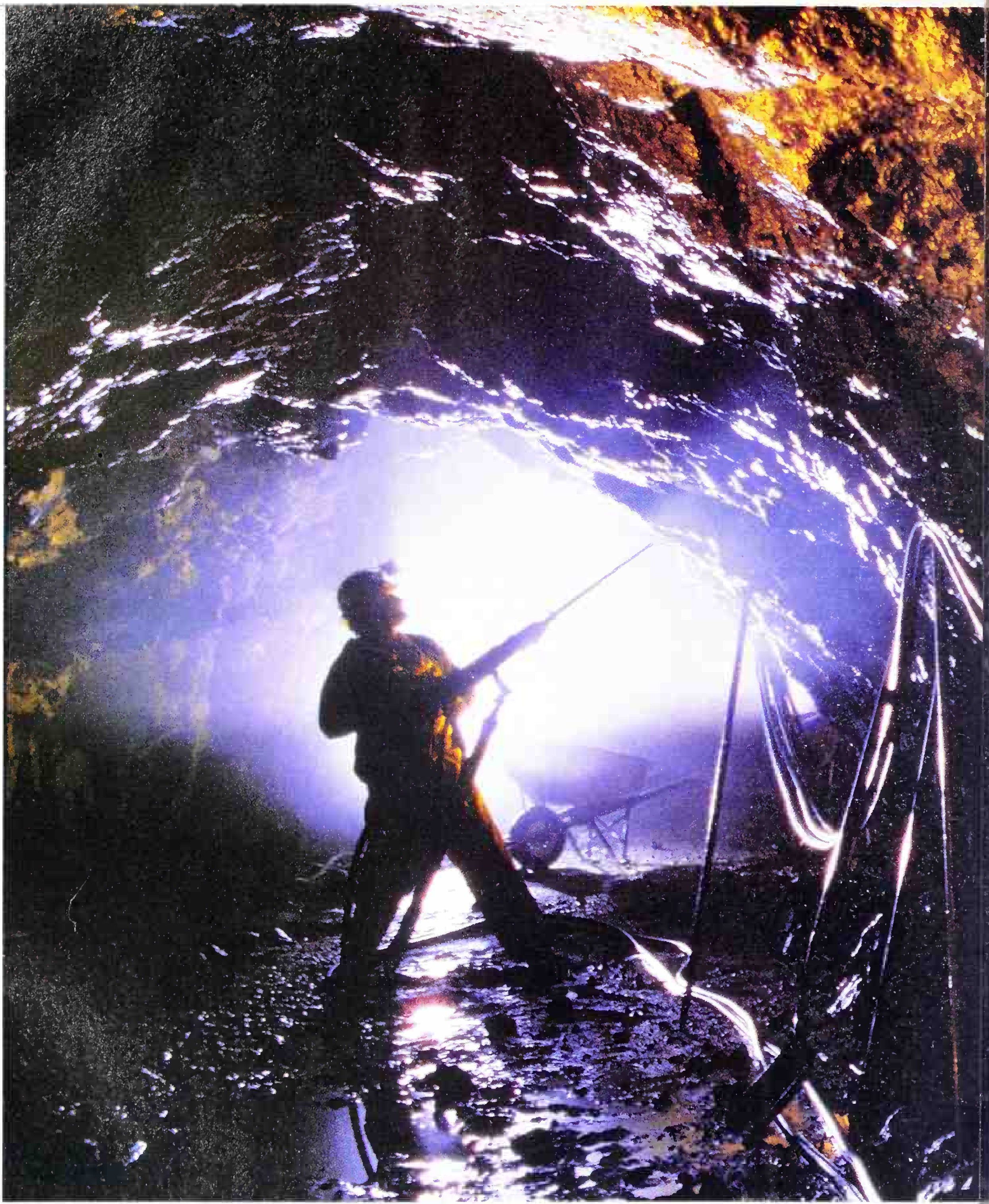
Leading the cultural revolution at Pratt & Whitney is Karl J. Krapek, a David protégé who was installed as president in late 1992. Since taking over, Krapek has led a massive restructuring. The workforce has been cut 40%



*INCLUDES CIVILIAN AEROSPACE PRODUCTION

DATA: COMPANY REPORTS, BUSINESS WEEK

PHOTOGRAPH BY GREG GIRARD/CONTACT, CHARTS BY ALBERTO MENA/BW



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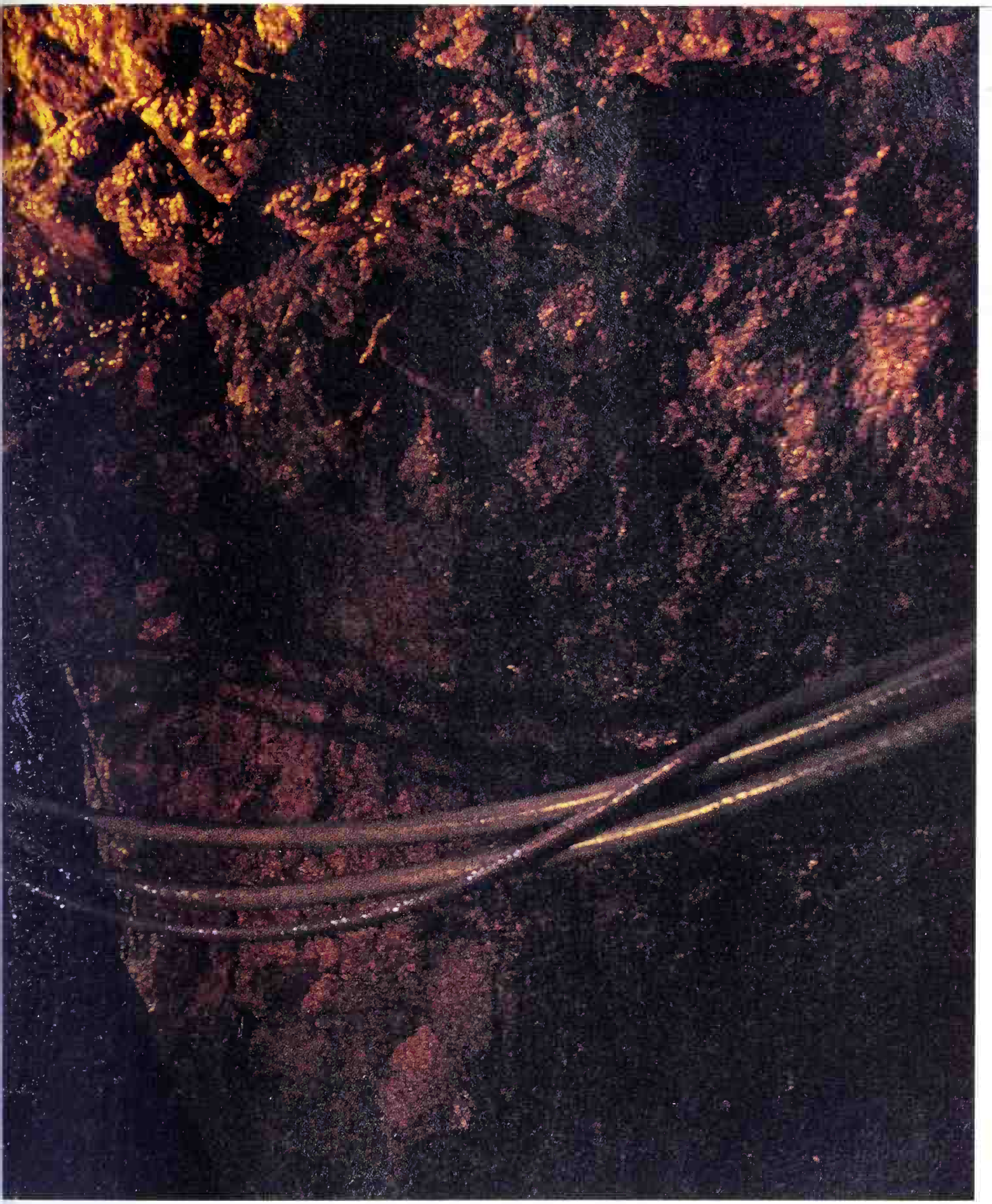

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and 600,000 square feet of manufacturing space idled. Managers plan 7% annual cost reductions with no end in sight.

But it's a struggle. "Culture change in a monopoly comes hard," says Krapek. "The hourly people understand it, but the middle managers have a hard time. They were paid to do the wrong thing—to build inventory."

After losing $570 million in 1991 and 1992, Pratt reversed gears and earned $536 million in 1993 and 1994. The worst may now be behind it. After spending $500 million on developing the PW4084 engine, Pratt was first with a new engine for Boeing Co.'s new 777 aircraft.

Pratt's one glaring weakness is the lack of an engine for the latest model Boeing 737. Although Pratt was the exclusive engine supplier for early 737s, it believed the plane had reached its peak and chose instead to develop an engine for the larger 757. That proved a miscue—and GE jumped in. The 737, ideal for the shorter routes that have evolved since airline deregulation, is now popular. "The 737-100 and 737-200 were both powered exclusively by Pratt & Whitney engines," says Jim Eckes, managing director of Indoswiss Aviation, an aircraft-leasing company. "Now it's all going to GE. That was a stupid mistake."

Pratt's stumbles have cost UTC dearly in recent years. As Pratt gets fixed, David's goal is to get all the units working well at the same time, for the first time since UTC diversified. But a stray wind can blow a sailboat off course, and David faces many uncertainties as he steers the new UTC. Apart from continuing to indoctrinate his team in the new competitive mentality, he will confront difficult choices in Russia about just how much to invest. Already, his joint-venture partners are arguing for greater commitments. Then there is Carrier, which remains a laggard, with operating margins last year of just 5.7%.

Still, the changes wrought so far by David and his team are beginning to gain notice. UTC shares are now trading close to 70—up from the low 40s in late 1993. Key customers, such as United Airlines Inc., say they have seen a new, more cooperative spirit at Pratt.

But with competition still intense, there will be no rest for UTC's chief executive. David will have to sustain his frenetic remolding efforts for years, while still betting big on faraway markets where the only certainty is surprise. His ultimate success is still poised on the knife's edge. Kind of like a day spent racing sailboats.

By Tim Smart in Moscow, with bureau reports

IN CONNECTICUT, THE HUMAN COST OF GOING GLOBAL

SOUTHINGTON
74

TONY BACEWICZ/THE HARTFORD COURANT

LOCAL ANGER Unionists demonstrate outside UTC headquarters in Hartford

You don't have to look far to see just how the changes at United Technologies Corp. have shaken the economy of Connecticut. Once the state's largest employer, UTC provided more than 51,000 jobs in 1990. Today, jobs have fallen to fewer than 32,000—a 38% drop.

The victims are everywhere. Unemployed factory workers at Pratt & Whitney jet engines. Engineers who took early retirement at Sikorsky Aircraft helicopters. Middle managers laid off from Hamilton Standard, which makes environmental controls and propellers.

EMPTY STORES. Then there are people like Frank Porto. Porto owns the Aircraft Package Store in North Haven, directly across the street from a Pratt factory. On a recent Friday afternoon, the liquor store was empty. "It used to be really bustling at this hour," says Porto.

All along Washington Avenue, the main drag of North Haven, the story is the same: abandoned storefronts, "for lease" signs. And it isn't just UTC that has wielded the knife. Throughout the state, one company after another has pared its payroll—Xerox, U.S. Surgical, Electric Boat, Aetna, Travelers, and others.

In part, Connecticut shows how the promise of globalization—that new markets overseas would ultimately boost the U.S. economy—is an empty one for some. "While you can make a strong case that we are net beneficiaries as a country from free trade, oftentimes the gainers and losers are different people," says Shawmut Bank economist Nicholas Perna.

Altogether, Connecticut has lost about 200,000 jobs since the peak of employment in early 1989. While some industries, especially pharmaceutical research, have been adding jobs, the only significant new source of employment has been the Native American-owned Foxwoods casino complex in Ledyard, Conn. But salarie average about ha the $13 to $15 an hour earned in defense factories.

BOASTING. Those who survive at UTC are under increasing pressure to improve productivity. "One of the things we old-time machinists wonder about is that the people running the company now are the bean-counters," says James Flanagan, president of Flanagan Brothers, a sheet-metal shop that supplies Pratt. Indeed, the whole relationship between UTC and the community of workers, suppliers, and politicians seems under siege. A 1994 survey o employee morale at Pratt found that while 78% of those surveyed had pride in their work, fewer than half said they felt strong loyalty to the company. "We tore up the social contract here," acknowledges Pratt President Karl J. Krapek.

What's more, unionists see United Technologies boasting to Wall Street that its earnings have improved—yet continuing to shift work to lower-cost locales. "Right now, the only reason they are having more layoffs is for th greed," says Andrew Romegialli, labo representative at District 91 of the International Association of Machinists. Greed or survival: It's a matter o perspective. But as U.S. companies move abroad, the shouting over lost jobs and wages will only grow louder.

By Tim Smart in North Have

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COMMENTARY

By Paul Magnusson

SOCIAL SECURITY: APOCALYPSE SOON—OR SOONER

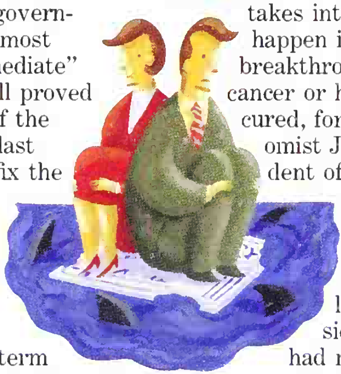
Economists generally shy away from predicting growth or interest rates beyond the next four quarters. Longer horizons are considered too hazy for accuracy. But when it comes to the debate over the financial solvency of Social Security and Medicare, 10 years is considered the near term, and 75-year forecasts are just part of the job.

Yet Social Security is so large a program that being off by a fraction can lead to errors with huge fiscal consequences. With 43 million elderly people receiving $428 billion each year—a quarter of all government spending—small mistakes can force big benefit cuts or payroll-tax hikes to make up the shortfall.

Right now, the great danger is that even the government's worst-case scenario may be too upbeat. The pace of real wage gains is the main determinant of how fast Social Security revenues grow. The most pessimistic official projection calls for wages to rise by an average of 0.4% annually over the next 35 years. But the economy has eked out only a 0.1% rate of real wage growth over the past five years. If earnings stay depressed, Social Security cash flow could go negative much sooner than anyone has been willing to admit: 1997.

ROSY AND ROSIER. Unfortunately, the Clinton Administration is still singing *Happy Days Are Here Again*, despite mounting evidence to the contrary. True, economic assumptions were toned down after the disappointing experience of the 1970s and 80s. But when it comes to economic prognostication, things have a way of going wrong more often than right. "Even the most pessimistic assumptions don't give you any idea of what would happen if the next 25 years matched the last 25," says Roland E. King, chief actuary of the Medicare system until 1994.

Indeed, the numbers have been breaking badly for the government's forecasters. The most widely accepted "intermediate" economic projections still proved too optimistic in eight of the past 10 years. And the last two major attempts to fix the Social Security system—the latest led by Alan Greenspan in 1983—fell short because they were based on overly rosy assumptions. To close the long-term gap expected in just the retirement and disability portion would require a payroll-tax increase of 2.17 percentage points—a huge jump.



Actuaries have had their biggest problems predicting real wage growth, which they have consistently overestimated over the past 20 years. The reasons? The slowdown in productivity growth and the surge in the proportion of compensation going for health-care benefits, which are not subject to the payroll tax. The latest projections bank on a rebound in wage growth, as health-care costs moderate and as productivity grows again. But there's still no proof that real wages are rising (chart).

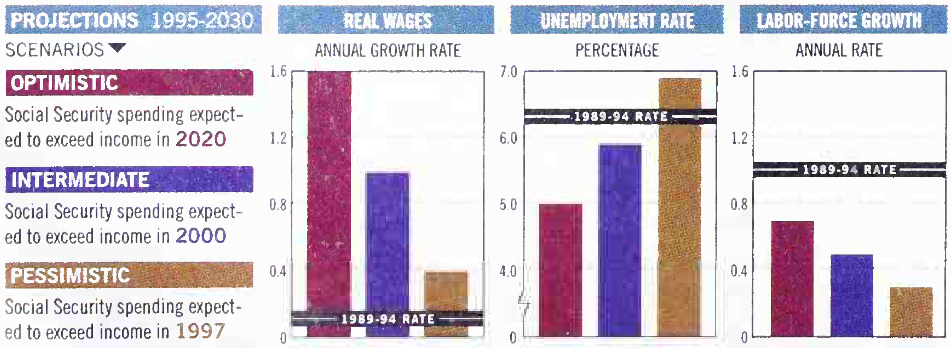
Changes in life expectancy could also throw all the calculations out of whack. Today's 65-year-old man can expect to live a further 15.3 years, an improvement of nearly two years since 1975. But the latest Social Security report, released on Apr. 3, assumes that life expectancy will grow at half that rate—less than an extra year in all. None of the projections takes into account "what coul happen if there is a radical breakthrough in science—if cancer or heart disease were cured, for example," says economist John Goodman, president of the National Center for Policy Analysis.

Another hit to the system could occur if people start living longer once they get sick. So far, AIDS hasn't had much negative effect on Social Security payouts, since HIV-positive people tend to work and pay taxes until they become ill. They then die fairly quickly. But if a more potent drug were developed to prolong life expectancy, "it could add a tremendously high cost to the system," admits Robert Myers, former chief Social Security actuary and deputy commissioner in 1981 and 1982. In fact, disability payments in general are climbing far faster than expected, perhaps because examiners are getting more sympathetic. The disability fund ran out of money in 1992 and 1993, and taxes from the retirement program had to be diverted to bail it out.

Politicians have long counted on the multibillion-dollar surpluses from Social Security to help hold down the budget deficit for the rest of this decade. But if current trends continue, the entire system may be running a deficit of its own—and sooner than anyone expects.

Magnusson covers economic and social trends from Washington

When Will the Social Security Money Run Out?



DATA: SOCIAL SECURITY ADMINISTRATION

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TRAVEL

THE LOVE BOATS ARE BRAWLING

They're launching lush new ships–and small lines may sink

"A WHOLE NEW FEEL": *Cruise ships in the port of Miami*

RANDY TAYLOR/GAMMA-LIAISON

When Joyce Landry began her cruise-booking business in 1982, a 1,200-passenger liner was considered enormous, seagoing spas were unheard of, and guests had just one place to dine: the main restaurant. Today's 2,600-passenger vessels boast dining choices ranging from pizzerias to sushi bars, ballroom-size spas, and seven-deck-high atriums glowing with neon. "In the late 1980s, cruise ships started mirroring resorts," says Landry, executive director of Landry & Kling Corporate Cruise Specialists in Coral Gables, Fla. "We've come a long way from the days of narrow corridors and low ceilings to palatial, high spaces with lots of glass and waterfalls. It's a whole new feel."

For cruise-ship operators, it's a very expensive feel. The colossal new liners, at $400 million or so apiece, are changing passengers' expectations about what a cruise should be. At the same time, they are dramatically adding to industry capacity when the outlook for market growth is uncertain.

"BIG MACHINES." The result: The big, well-capitalized cruise lines that can afford to build megaliners are likely to elbow aside—or acquire—their poorer cousins. "Carnival, Royal Caribbean, and P&O [London-based Peninsular & Oriental Steam Navigation Co., parent of Princess Cruises] won't lose money. They're like big machines," says financial consultant Kenneth Trippe, president of Cruise Brokers Inc. in Coral Gables. "It's the smaller ones, the lines with the weakest finances, that feel the squeeze." Indeed, Carnival Corp., the biggest operator, has been able to acquire the smaller Holland America Line and Windstar Cruises, as well as pieces of Epirotiki Cruise Line and Seabourn Cruise Line.

Cruise armadas are in a kind of arms race. Each new ship tries to outdo the others with attention-getting features, such as the 18-hole miniature golf course on Royal Caribbean Cruises Ltd.'s Legend of the Seas, coming in May. In 1996, Carnival Cruise Lines' Carnival Destiny will be the biggest cruise ship ever built at 100,000 gross registered tons, a dozen decks, and a capacity of 3,350 passengers. A year later, Princess Cruises will surpass it with the 104,000-ton Grand Princess, offering three show lounges, a wedding chapel, a virtual-reality theater, and a wine-and-caviar bar.

Such glorious excess alarms executives such as John Olsen, chairman of midsize Cunard Line Ltd., wh ships include the Queen Elizab II. "For the first time in a dec supply and demand are tilting of balance and not in our fav Olsen warned colleagues at a cent Miami conference. From through 1998, an additional 48 berths will pour into the cur floating inventory of 105,00 North America. While an known number of smaller, ol ships will be forced out of b ness in 1997 by new internati safety regulations on matters s as sprinklers and lighting, Cr Lines International Assn. e mates the annual net increase berths at a hefty 7.5%.

The great unknown is passen growth. After averaging 9% a since 1980, it slowed to 2.2% 1994. Cruise Lines International Ch man Albert C. Wollock blames bad p from a series of mishaps, including outbreak of Legionnaire's disease ab a ship in his Celebrity Cruises fleet.

CASH COWS. Last year's downt doesn't faze market leader Carni Robert H. Dickinson, president of Carnival Cruise Lines unit, jets aro the country preaching market ex sion to travel agents. One of his tras: "Only 7% of the American pu has cruised before. Another 100 mil to 150 million have the time and money to take a cruise. This is an e mous untapped market." He adds: " is not a time for our industry to pa

Seventy percent of the new tonn in the next four years is going to in try leaders Carnival, Royal Caribb and Princess. As they expand, the guys can more easily defray the cos national ads, reservations, legal affa and administration. High-volu lines can negotiate better pr for everything from beef to b to bananas. And big ships o more cash-generating bars, b tiques, and casinos.

While Carnival and Royal C ibbean have seen their marg slowly shrink, the real squeez on the smaller lines. Ship bro Trippe says at least four N American lines, consisting o dozen ships, are seeking buy or actively seeking outside equ This is one rising tide that w lift all boats.

By Anne Kal
in Coral Gables, I

A GROWING ARMADA

The number of berths on North American cruise lines is expected to boom

	APR. 1, 1995	PROJECTED FOR 1998*
CARNIVAL	23,995	40,041
ROYAL CARIBBEAN CRUISES	13,216	24,724
PRINCESS CRUISES	10,070	16,570
KLOSTER CRUISE	9,539	9,735
CUNARD LINE	6,896	5,319
CELEBRITY CRUISES	4,760	10,150

*Includes known launches minus expected retirements of ships

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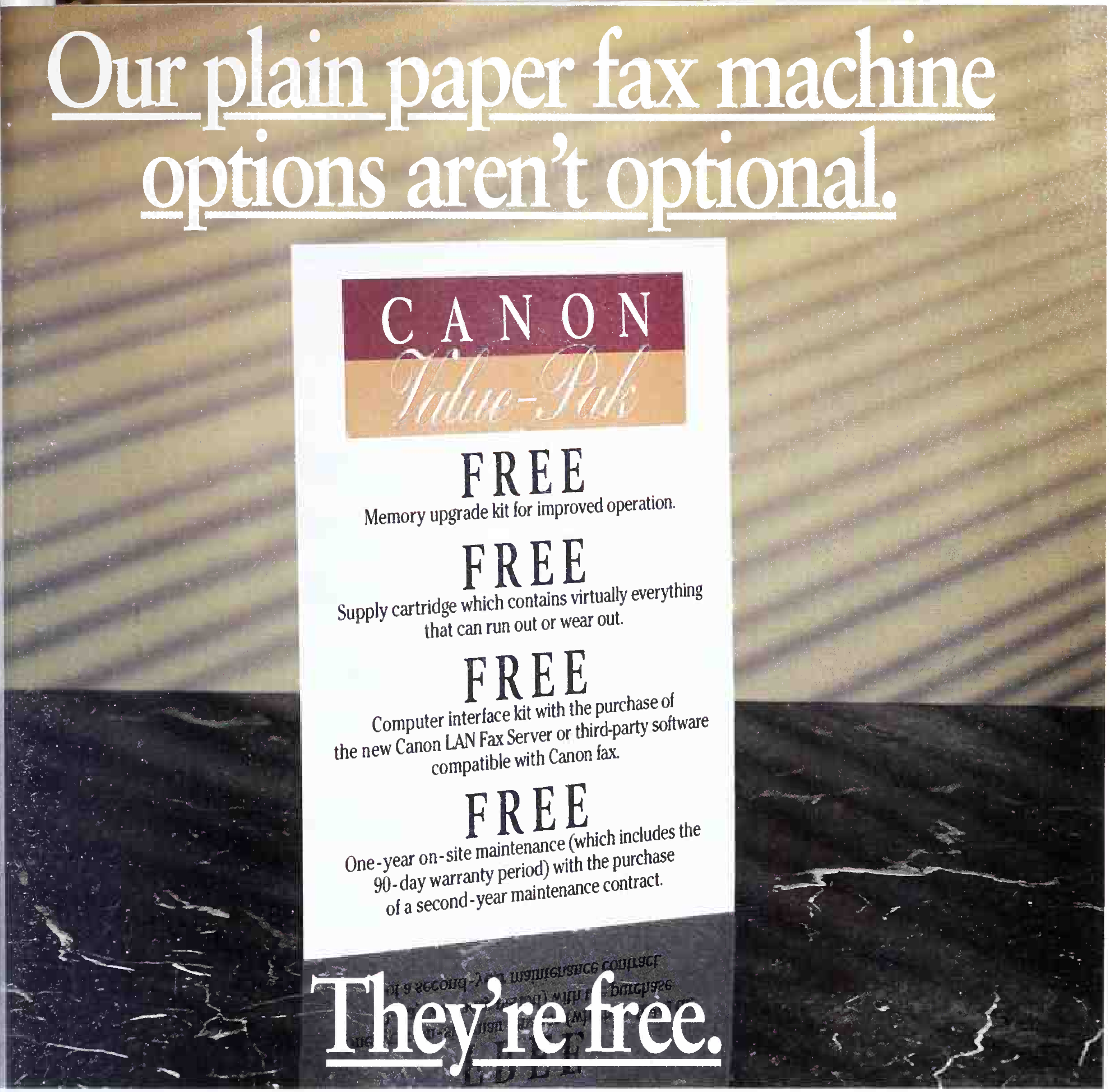

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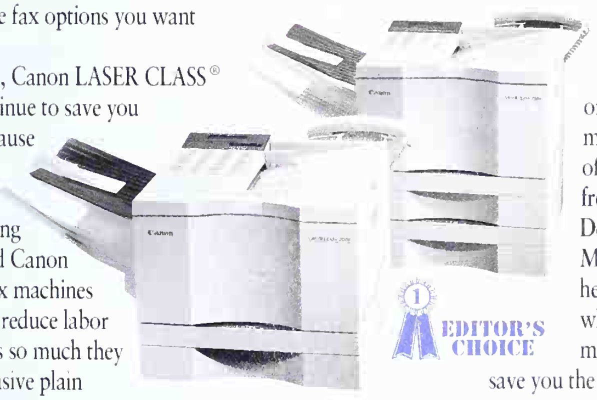

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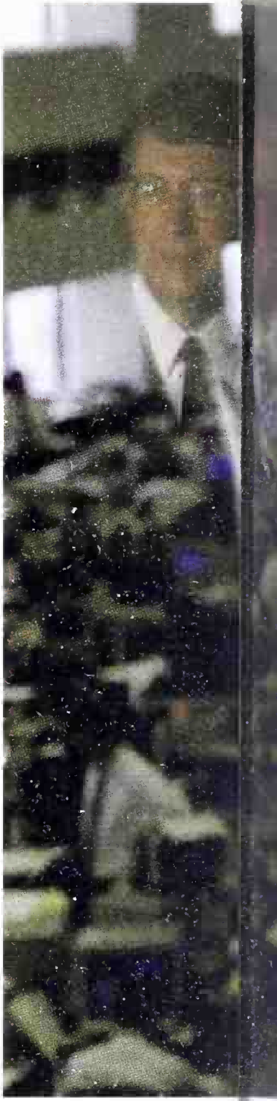


TURMOIL AT SALOMON

Huge losses and a talent drain have it reeling

It was another day in the remarkable decline of Wall Street's premier trading house. At a grim managing directors' meeting on the morning of Apr. 18, Salomon Brothers Inc. reshuffled its top management and created a new operating committee and management board. The firm was also forced to amend a controversial compensation system that had led to the departure of some of its most talented traders and investment bankers. That same day, some six managing directors left the firm, bringing the total since December to 15, including three members of Salomon's executive committee, Richard J. Barrett, Martin L. Leibowitz, and Shigeru Myojin. These developments followed reports of horrendous trading losses, multimillion-dollar accounting snafus, and a potential credit-rating downgrade. The firm conceded that its 1994 results were "awful."

Sure, other Wall Street firms have done poorly lately, thanks to weak markets and sharply lower trading and underwriting activity. These conditions followed three fat years, when unusually lush profits papered over deeper problems. Now, the entire securities industry is gripped by a severe shakeout because of overcapacity.

Yet nowhere is the turmoil worse than at Solly. Former employees, current employees, and Salomon watchers say the firm is going through a crisis as serious as the one that followed the government bond scandal in August, 1991—bleak days when Salomon admitted submitting false bids in U.S. Treasury securities auctions. The latest upheaval isn't life-threatening. But one recent defector says: "This is the second time in this decade we had to experience this wrenching change. People have that same sick feeling every day" reading about the problems in the papers. Salomon denies there's a crisis but says the company is undergoing a difficult and stressful transition.

Just what is ailing Salomon? The most visible symptom is the firm's huge losses. Even during the Treasury bond scandal and the two years that follow
Salomon remained quite profitable, earning $550 million
1992 and $827 million in 1993. But its return on equity lagg
behind the rest of the Street, and in 1994, it lost $399 milli
mostly from trading (chart, page 147). First-quarter resu
will be out on Apr. 25, and analysts are bearish. Judging
its underwriting rankings in the first quarter of 19
Salomon's investment-banking status is slipping. In debt a
equity underwritings, it fell from fifth place to seventh, co
pared with the same period last year.

By many accounts, though, the underlying problem is m
agement. Salomon's point man is Chief Executive Deryck
Maughan, 47, who runs Salomon Brothers, the big brok
dealer arm of Salomon Inc. The other chief player is War

What's Ailing Salomon

- Weak leadership by CEO Deryck Maughan
- Below-par financial results, including $399 million deficit in 1994 from trading losses
- Lack of a clear vision for Salomon's future
- Controversial pay plan that benefits shareholders but is causing continuing exodus of best employees
- $15 billion of Salomon debt under review by Moody's for possible ratings downgrade
- Uncertainty over Buffett's stake—if Salomon stock doesn't rebound by October, he might start cashing in preferred shares
- Market-share decline in underwriting rankings

BUSINESS WEEK

BUFFETT'S TEAM

Maughan has no trading experience, and Denham has never worked on Wall Street

uffett, the legendary investor and Salomon director who s over 20% of the firm's voting rights and has been ly involved in many of its major decisions, including the pensation plan.

was Buffett who chose Maughan to replace longtime mon boss John H. Gutfreund, who resigned in the wake he Treasury bond affair in 1991. That was a curious ce. Although Salomon is a trading firm, Maughan has no ing experience. And Buffett selected Robert E. Den- , 49, Buffett's attorney for 17 years and a man with no Street experience at all, to be Maughan's nominal boss as l of parent Salomon Inc. Denham has only a minor role in to-day decision-making at Salomon Brothers. Buffett de- d to comment for this story.

GING TONGUES. Within Salomon, there is a widespread ng that Maughan isn't up to the task of running the firm, rding to many interviews by BUSINESS WEEK. "Deryck has n a phenomenally successful franchise and turned it into a iocrity in a remarkably short time," says one ex-Salomon ran. Like most of the former employees interviewed by NESS WEEK, this individual left of his own volition, retains ng, positive feelings toward the firm, and is upset about way it's being run. Many current Salomon execs ex- sed similar feelings during interviews. Nearly all of the le who talked to BUSINESS WEEK declined to be quoted. firm says it totally supports Maughan.

ertainly, Salomon Brothers still has superb franchises. It is a leading buyer and seller of bonds for customers and has a strong Tokyo operation. Some observers think Salomon will regain its former eminence. "I think the firm is going to whip itself into shape," says Michael Flanagan, an analyst with Lipper Analytical Securities Corp. and a lonely Salomon bull. "This will result in some short-term pain. Long-term, I see tremendous potential and earnings power in Salomon's franchise and balance sheet."

But the prevailing view is that Solly is losing its edge and that Maughan is in over his head, partly because of his lack of trading and risk-management experience. Maughan, who spent 10 years as a British Treasury bureaucrat and four years at Goldman, Sachs & Co. in London, rose at Solly as a sales manager and an administrator. From 1986 to 1991, he ran Salomon's Tokyo office. Its success won him a promotion to co-head of investment banking in 1991.

Yet judging from the 1994 losses, Maughan has proven a poor risk manager, which involves overseeing a $172 billion balance sheet with complicated trading positions. In August, 1994, Maughan stepped down as chairman of the risk-management committee, a possible sign he wasn't doing well.

Maughan, say former Salomon employees, also erred when he decided not to rehire John W. Meriwether, a popular and hugely profitable trader and risk manager. Meriwether left Salomon shortly after the Treasury bond episode but in 1992 sought to rejoin Salomon. But Maughan strongly discouraged Meriwether from returning, say three sources with knowledge of the situation, because Maughan felt threatened by Meriwether's power at the firm.

In doing so, Maughan ultimately cost Solly about a dozen of its top traders—colleagues of Meriwether's who left to join his new firm. Indeed, some believe Salomon's top traders in Japan and London—Shigeru Myojin and Stephen J. D. Posford, both of whom are leaving—may end up working with Meriwether, a close friend of both men. Meriwether declined to comment. Solly says Meriwether couldn't have come back without running the firm and that it has no regrets about his departure.

Another sign of poor management has been Maughan's clumsy handling of the new compensation plan introduced last October. Its purpose is laudable: to ban excessively generous bonuses and link compensation directly to the firm's performance—a goal dear to Buffett. In the past, Salomon had been guilty of overpaying employees: Its return on equity has lagged (chart) because its compensation and benefit costs are rising faster than net revenues, says analyst Flanagan.

But the plan's implementation has been poor. Its many inequities and inconsistencies pit employee against employee. And in 1995, it may leave some star employees making, say, $400,000 when they could make perhaps $2 million at another broker. Ironically, the plan could end up hurting shareholders. "Any person who is any good is thinking of leaving," says New York headhunter Alan Johnson. "It's a disaster."

Maughan acknowledged in last year's annual report that the pay plan would cause a "radical shift in our culture" and could hurt earnings in the short run because "we shall lose a number of our most productive professionals." Yet he said he believed that, longer-term, it would create a firm that is built around shareholder value.

On Apr. 17, Maughan had to backpedal on the plan, making it more "flexible" so that it could reward "outstanding individual performance." This was a necessary move to respond to widespread discontent. But it may be too little, too late.

Maughan also presided over two embarrassing accounting mistakes. Last November, Salomon announced it had an accounting problem with "unreconciled balances" that would be "insignificant." Then, in early February, Salomon announced that it would take a $140 million aftertax charge for sloppy bookkeeping for trades as far back as 1988. Denham said the firm's bookkeeping problems were definitely "resolved." But on Feb. 27, Salomon sheepishly said it would have to take an additional fourth-quarter 1994 aftertax charge of $35 million for an unreconciled balance from a 1988 derivatives trade. Denham said that the firm has implemented better financial and control procedures.

Many current and former employees also question whether Maughan has the people skills to manage a place such as Salomon. To many, he seems better suited to a large blue-chip corporation, with his focus on process and organization charts, than Wall Street's most rough-and-tumble trading firm, where managing talented people with big egos and difficult personali comes with the territory.

Many Salomon employees portray Maughan as a man isolates himself in his office, who seldom walks around t nerve center—the huge equity- and debt-trading floors- the investment-banking floors. That is in distinct cont with Gutfreund, who was a highly visible presence in trading rooms (page 152). The firm takes issue with this. I sists that Maughan walks the trading floors two or th times a week and that he maintains an open-door po But the press of clients, regulators, and other visitors, as as visits to foreign branches, prevents him from circula more, the firm says.

"COMING UNGLUED." Finally, despite Salomon's vulnera strategic position in the global investment-banking r there is a sense among many insiders that Maughan lac clear vision for Salomon's future. "The things of the are coming unglued. There's a recognition that Salomon substantially has to change, yet a transition to what is clear," says one recent departee. The firm says its vision i be a first-class global investment bank, including sales trading for clients, combined with a first-class propriet trading capability.

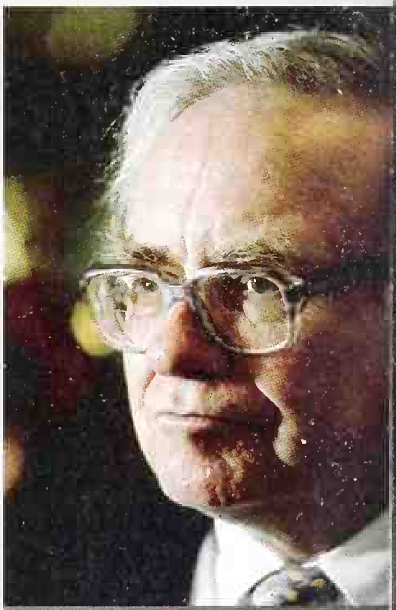
In essence, Maughan has dismantled the old ma Salomon culture without yet putting anything in its place. though it had many excesses, the old culture fostere sense of pride and innovation, of being part of the best t ing firm in the world. Employees are not leaving just beca of the pay plan. Many don't feel they are part of a firm

THE SAGE OF OMAHA IS LOOKING A LITTLE VULNERABLE

Warren E. Buffett seems willing to fess up to his errors. In Berkshire Hathaway Inc.'s 1994 annual report, he blames sloppy analysis, hubris, and the lure of owning a senior security for his ill-starred move into USAir Inc. preferred stock six years ago. But what about his stake in Salomon Inc.?

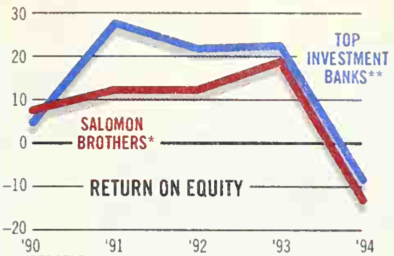
No mea culpa has been issued yet, despite Salomon's current misfortunes. If Salomon bounces back, Buffett's $1 billion-plus investment in common and preferred stock could be a big success. If Salomon's performance remains bleak, however, Buffett could be more vulnerable to serious losses than many observers realize. Neither Buffett nor a Berkshire spokesman would comment.

CONSOLATION PRIZE. At the moment, Buffett's stake is underwater. Between November, 1993, and December, 1994, Berkshire Hathaway acquired 6.63 million shares of Salomon common stock for $324 million. As of Apr. 19, the position was worth $227 million, a paper loss of $97 million. Berkshire's 700,000 preferred shares,



BUFFETT: *His Solly stake is unde*

purchased for $700 million in 1 recently lost ground as well. A end 1994, the company valued shares at a $35 million profit, d from a $175 million profit carri books a year earlier. The aggre



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riving to be the best, knows where it oing, or appreciates their various con- utions. “You have traders making of millions who are unhappy, when he old days, they would be grateful an opportunity to work at Salomon thers,” says another defector. Em- ees no longer feel positive, and en you lose that, you are managing cenaries,” he says.

he weight of troubles seems to be bly weighing Maughan down. He s haggard and overwhelmed, accord- to those who have seen him recently. l the firm seems to be confirming ghan’s shortcomings. It is searching a chief administrative officer to reduce Maughan’s burden verseeing the financial, operations, technology, and regional inistrators. Salomon says that it was Maughan’s idea to a new executive.

he role of Maughan’s boss at Salomon Inc., Denham, is to make strategic as well as compliance decisions but to e the operating decisions to Maughan. Thus, Denham ld be in on a decision, say, to exit equity trading in Eu- , but was not involved in Maughan’s recent move to set up w operating committee. A mild-mannered Californian and e friend of Buffett’s, Denham started out thinking the nt-company CEO job could be part-time but quickly real- it was a full-time assignment. He remains an enigma to Salomon employees and has stayed in the background except for restructuring Salomon’s Philbro Energy division.

Exacerbating Salomon’s identity crisis is the complicated role of Buffett. While Buffett rescued Salomon during the bond scandal by taking over as CEO for nine months, his ongoing role as a still powerful, behind-the-scenes activist shareholder gets mixed reviews. Salomon shareholders are thrilled that he has such a big stake, but many employees wonder why Buffett chose Maughan and still supports him.

For all of Maughan’s weaknesses, Buffett is expected to stand by him. The Apr. 17 reorganization is viewed internally as a reaffirmation of Buffett’s and Denham’s support of Maughan. Buffett is known to be extremely loyal and has too much personally invested in Maughan and Denham to withdraw his backing. “Warren thinks both of them are terrific,” says Jack Byrne, chairman of Fund American Enterprises in Norwich, Vt.

Yet some shareholders worry that Buffett might scale back his stake in Salomon. His biggest positive influence has been to bolster Salomon’s ailing stock. The shares, which currently trade around 34, flirted with highs of 52 in 1994 and would undoubtedly be much lower without the halo effect of Buffett’s ownership. In October, though, he must start re-

s for Berkshire’s investment on: $62 million.

ire retains a consolation prize, ts 9% dividend on the pre- oduces $63 million annually. million collected through 1994 to a reasonably competitive re- it’s well below Buffett’s cus- tellar results from such com- ks as Coca-Cola, Gillette, and r Buffett, perhaps the biggest is involvement at Salomon so opportunity cost—it has tied pital and time.

on will face a moment of truth 1, when 140,000 of Buffett’s shares must be converted r $140 million in cash or com- k held in Salomon’s treasury at re. The rest of Berkshire’s stake is due to be converted nal 140,000-share blocks over four years.

’S THUMB. Buffett’s next move e a significant impact on Salo- s going to be like the Roman thumbs up or thumbs down,” Bruce Berkowitz, a portfolio at Smith Barney Investment who holds stock in both Salo- Berkshire. If Salomon stock is $38 or more at the end of Buffett will almost certainly tock. That would be very bull- for the firm, sending the mes- the Omaha investor is hang- ere. And that’s the outcome that some Berkshire holders fully anticipate, especially those who are convinced that Salomon stock is poised for recovery: “It’s a wonderful buy. We’re accumulating it,” says Jack Byrne, chairman of Fund American Enterprises Inc. in Norwich, Vt. Dwayne O. Andreas, a Salomon director and a close associate of Buffett’s, acquired 100,000 shares at $33.68 in mid-March for a beneficial trust.

MOMENT OF TRUTH

The big question at Salomon: Will Buffett convert his preferred shares into common or cash?

But if the stock languishes in the mid-30s or below, especially for several years, the outlook for Salomon might be ominous. Buffett would be under pressure to convert the preferred stock to cash. That would deplete Salomon’s capital, further depress Salomon’s stock (including Buffett’s own common holdings), and send what might be seen as a very different message about his feelings toward Salomon. Buffett’s 1994 annual letter to shareholders is silent on the subject.

Buffett, though, is known for taking the long view. He has held on to his Salomon stake even though the stock has been on a veritable roller-coaster ride for the past decade. Berkshire bought its preferred stake just weeks before the 1987 market crash halved the investment-banking company’s common stock, from roughly $33 a share to less than $17. By 1991, Salomon stock had battled its way back to the mid-30s, but then news of the company’s U.S. Treasury bid violations sent shares plunging again.

After that nasty surprise, Buffett became deeply involved in the firm—so deeply that some observers suggest he might accept Salomon stock in exchange for his preferred stock, even if it is selling below $38 a share and would compound his short-term paper loss. Buffett preaches the value of hanging on to subpar businesses as long as they generate cash and field a solid management team. Yet Buffett is not known for giving away money, and he must act in the best interest of Berkshire shareholders.

Berkshire’s Salomon investment looks a lot better than his USAir stake, which the company wrote down to 25¢ on the dollar last year. But there’s no question that Buffett’s Wall Street adventure has further sullied the Sage of Omaha’s golden touch.

By Greg Burns in Chicago

CHART BY ALBERTO MENA/BW

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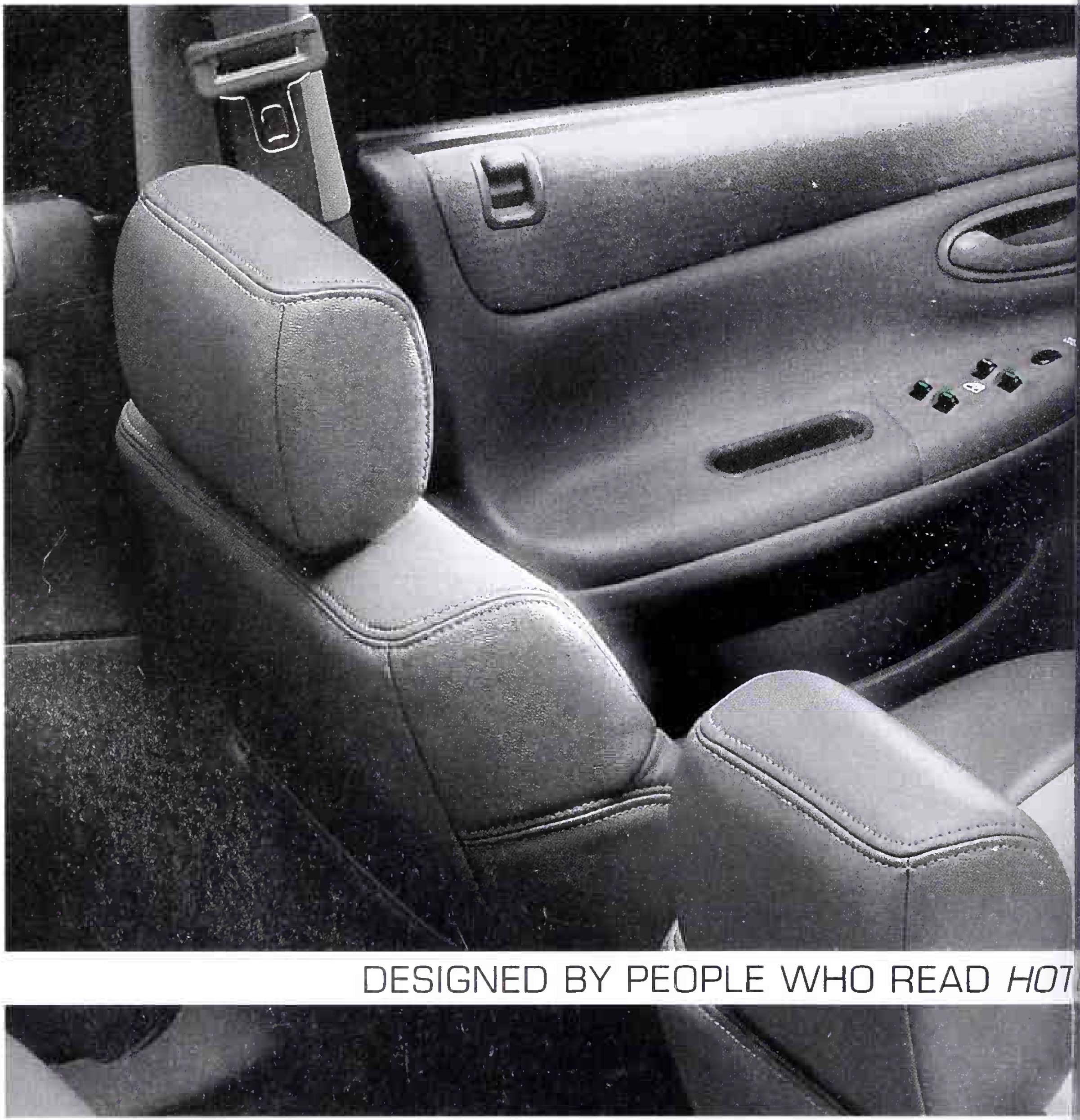

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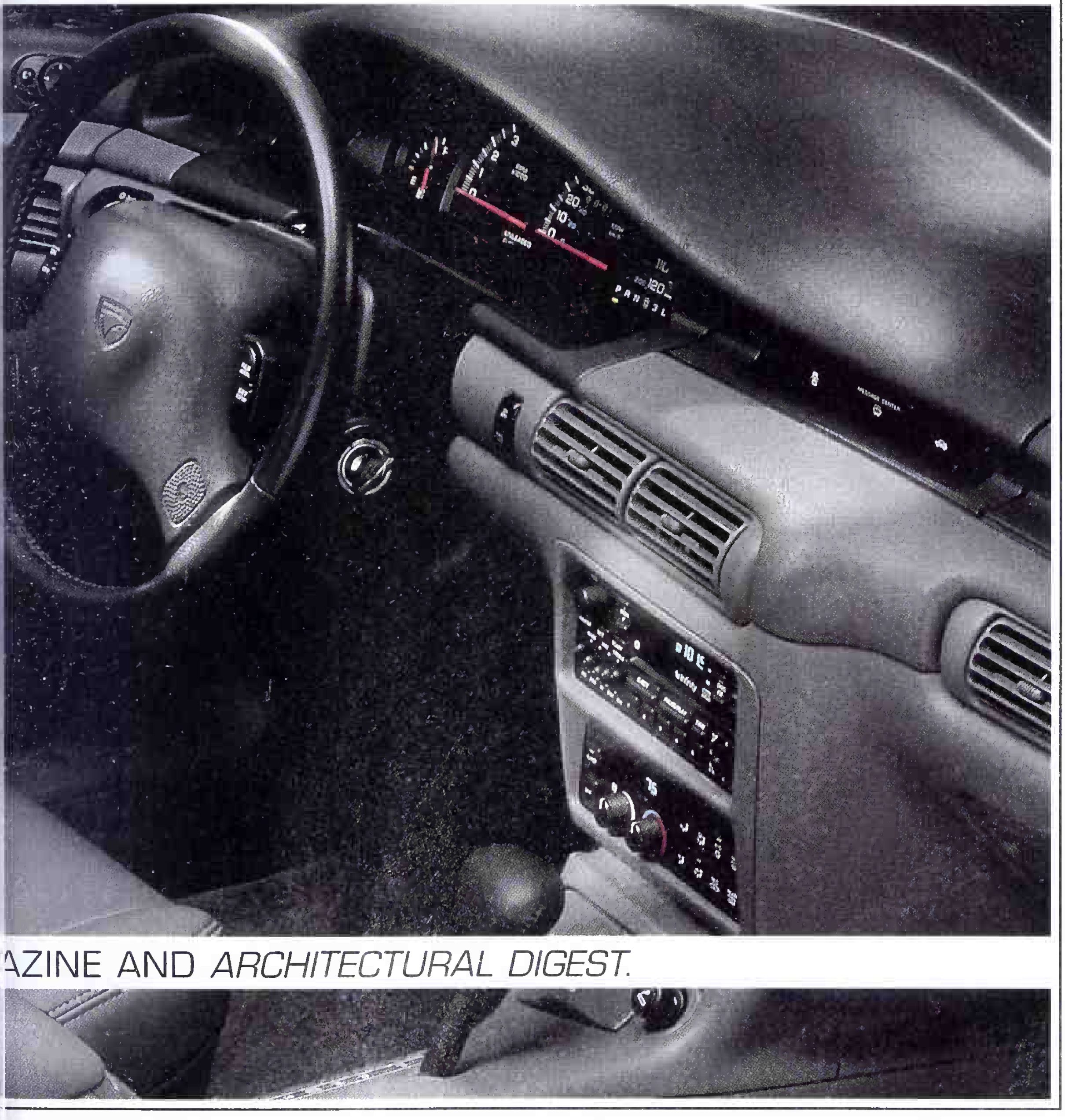

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deeming a $140 million chunk of his $700 million in preferred shares for cash or stock. If the stock is trading for less than 38, he would have an incentive to take cash. That would depress the stock further, costing Solly a nice chunk of capital (page 146).

Curiously, Solly's descending fortunes and Buffett's ascending influence both stem from a muggy August day in 1991, when Salomon's Treasury bond bid-rigging scandal broke. Tarnished, Gutfreund and President Thomas W. Strauss resigned. So did Meriwether, despite Buffett's support. Meriwether later was suspended from the securities industry for three months because of his role in the Treasury bond episode and fined $50,000.

In less than 24 hours, Buffett drafted Maughan out of a group of Salomon executives to run Salomon Brothers. The decision was "the most important hire of my life," Buffett recently told a group of business school students. The superinvestor said he was looking for someone with the right character to run the firm: "Essentially, I was very lucky, because I found that individual, a fellow named Deryck Maughan." Buffett installed Denham as CEO of Salomon Inc. to oversee Salomon Brothers and Phibro.

"SALOMON NORTH": *Top traders followed Meriwether*

By December, 1992, Meriwether was ready to return to the firm, where he would have rejoined a dozen traders who had remained intensely loyal to him. But in a move that upset Meriwether's followers, Maughan offered him a job that would have made him a distant No. 2, with fewer responsibilities than he had when he left after the scandal. Meriwether rejected the offer.

What followed was the first wave of a dramatic talent drain. Furious at Maughan, Eric Rosenfeld, Lawrence Hilibrand, Merton Scholes, and Richard Leahy in 1993 joined Meriwether in Greenwich, Conn., at "Salomon North," as his firm, Long-Term Capital Management, is known. Cumulatively, the former Salomon employees who joined Meriwether generated the bulk of Salomon's profits. By 1995, even more top Salomon traders had signed on, including foreign-exchange trader Hans Hufshmid.

BIG BONUSES. Maughan's other big mistake has been to make a muddle of the firm's compensation plan, long a source of strife. The problem: how to fairly reward proprietary traders who rack up huge profits? The firm not only had generous pay arrangements with the proprietary traders but also extended generous deals to many of Solly's other business units.

By 1994, the system became too much for shareholders to bear. Despite the fact that 1994 was Salomon's worst year in history, it paid some phenomenal bonuses. Indeed, Solly paid more in compensation and benefits, $1.5 billion, than the $1.4 billion it earned in net revenues, says Lipper's Flanagan. The crowning blow was when a few traders in the proprietary bond-arbitrage group got pay packages worth an incredible $35 million each, even though the proprietary-trading group lost $49 million last year. In 1994, Posford, head of London proprietary trading, made about $25 million, even though Lon proprietary trading lost $400 million. Posford and the firm clined comment.

In response, Salomon announced a new compensation tem last October to link pay directly to performance. The sharply segregates the firm into two parts: the propriet trading business, which is allocated $2 billion of the firm' billion in equity; and the customer-driven businesses, w have the other $2 billion behind them. The latter is a p nership of 125 managing directors, including investm bankers, research analysts, and traders who execute tra for customers.

TWO-TIER SYSTEM. One problem with the new pay pla that it treats the 6,800 employees in the customer-dr businesses shabbily compared with the 100 propriet traders. First, if 6,800 people have $2 billion to use, they likely make far less than 100 ple using $2 billion. Thus, managing directors in the p nership, even in a good year, earn a only small fractio what Salomon's propriet traders can earn. Further, n lowance is made for the fact there is far less risk in the tomer businesses than in pr etary trading.

As for the customer-dr businesses, employees are based on the total results o the customer businesses. Th employees receive a minim salary of $400,000, $600,000 $800,000. If the firm earns a return in 1995 or less, they only the minimum. Whatever firm earns over this hurdle, goes to employees and 60% to the firm.

The trouble is, even if a r aging director in, say, European investment banking do terrific job, he has little chance of influencing the total, thus his own pay. Some employees figure their efforts w trickle down to them.

There are more inconsistencies. The plan even viol Buffett's own philosophy, as articulated in his Berks Hathaway Inc. annual report. In a section on compensa he writes: "In setting compensation, we like to hold out promise of large carrots, but make sure their deliver tied directly to results in the area that a manager contr instead of firm-wide results. This inconsistency hasn't caped employees' notice: These pages are posted on the of the partners' gym.

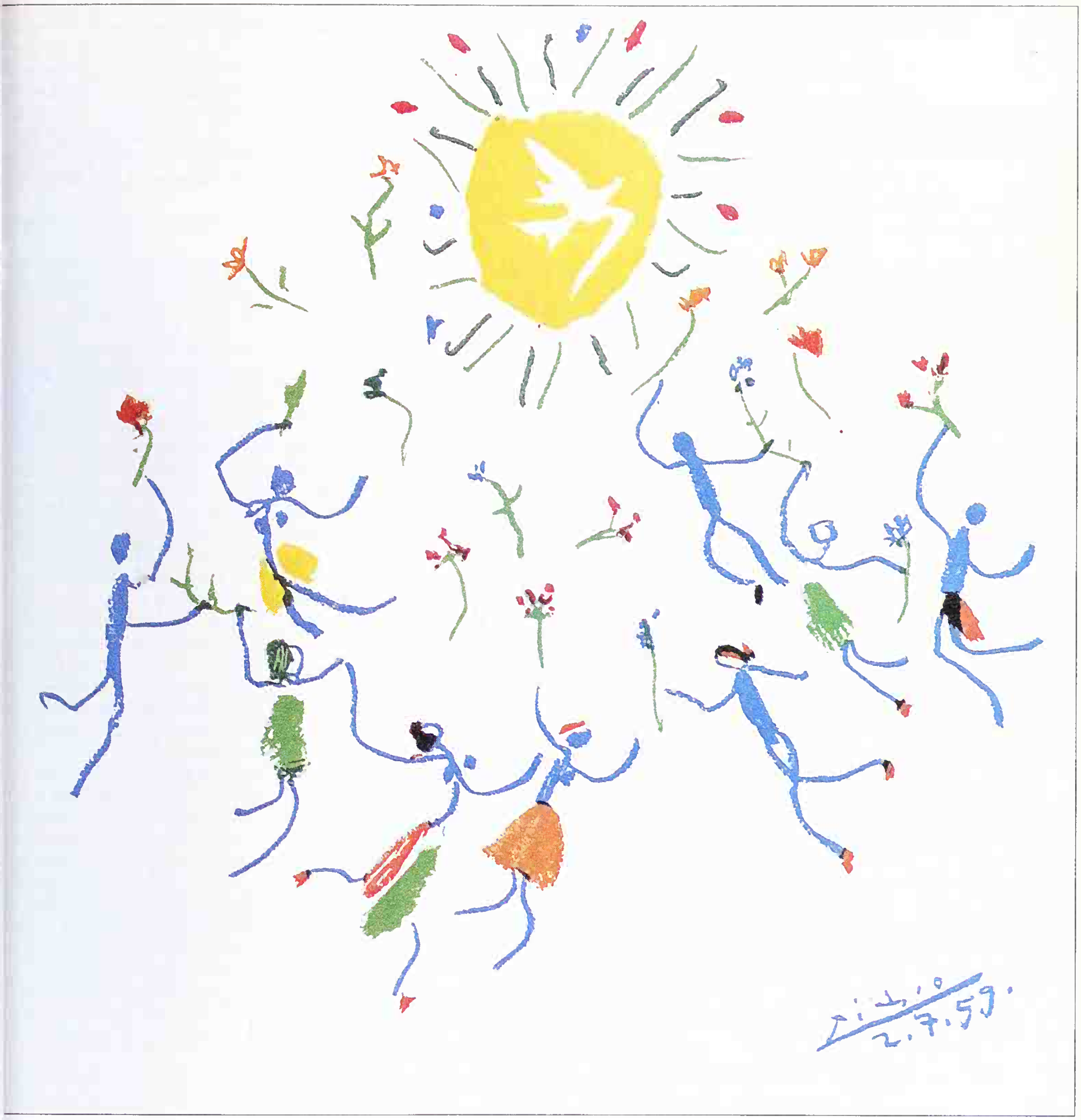
The Apr. 18 modification generated such a hue and cry Maughan set up a $20 million fund to "recognize outstan individual performance even if the client-driven business whole does not meet its targeted retu An additional $25 million will be spen new hires.

A FIX THAT ISN'T

The new pay plan, pitting worker against worker, is considered a disaster

It's unlikely the new pay plan will the defections. If all managing directo the customer businesses earn just t minimums, the firm will spend a tot $80 million. That's down from $220 milli 1994. What Maughan has done is add million to be divided among the gr "That won't go very far," says one managing director.

If Maughan can't get Salomon bac



DO YOU KNOW IN WHAT COUNTRY PEOPLE CALCULATE EVEN WHILE DANCING?

A reproduction of "La Sardana de l'Amistat" (The Sardana of Friendship) by Pablo Picasso. The Sardana is the traditional dance of Catalonia. © Pablo Picasso, V.E.G.A.P., Barcelona, 1994.

track, he will face tough and somewhat unpalatable strategic choices on Salomon's direction. One possibility may be to shrink and end up looking like Bear, Stearns & Co., a smaller trading house that is a niche player in investment banking. Salomon would give up its ambitions of being a global, top-tier powerhouse. A more radical plan would be to turn the clock back to the 1970s, when Salomon was strictly a fixed-income trader, with little emphasis on equity, research, and investment banking. Finally, Salomon could try to compete with the Merrill Lynch & Cos the world by merging or being acquired by a domestic foreign commercial bank, an idea being discussed by employe This could improve Salomon's credit rating and its competit position, but it would mean surrendering its proud heritag

The most favorable option may now be out of reach: Salomon of the 1980s that was close to joining Wall Stre top tier of Merrill Lynch, Morgan Stanley, and Goldn Sachs. For better or worse, the Salomon of the 1990s face much more modest future.

By Leah Nathans Spiro in New Y

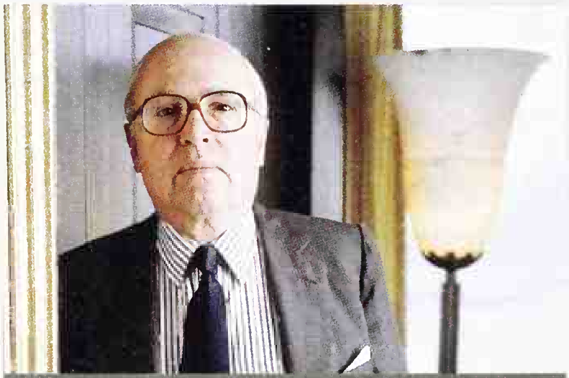
THE LION IN WINTER

No question, John H. Gutfreund was a flawed manager. As chief executive of Salomon Inc. from 1983 to August, 1991, he made some big mistakes. Perhaps the worst was failing to inform the New York Federal Reserve Bank in 1991 when the firm found it had submitted a false bid in a Treasury note auction. Although he was never charged with wrongdoing, Gutfreund resigned from Salomon and agreed to pay a $100,000 civil penalty. Another major error was cutting a special pay deal with supertrader John W. Meriwether, which badly undermined the firm's compensation system—a problem that endures today. Nor was Gutfreund well-liked: A gruff man, he suffered fools badly and had no use for the press.

THE SMELL OF FEAR. Yet after 38 years at Salomon, Gutfreund left an out-sized legacy. He built Salomon Brothers Inc. from a small, parochial bond house into one of the preeminent capital-raising firms in the world. He told new recruits to come in every morning "ready to bite the ass off a bear."

He had vision and was passionate about the securities business. He was able to manage big egos. He was a trader who could gauge losses by the expression on a trader's face. "John could smell fear at 100 paces," says former Salomon currency trader Bill Lipschutz in an interview in the book *The New Market Wizards*. Gutfreund was liked by investment bankers because even as CEO, he was always ready to go out on client calls. "Under John's leadership, much of the value of Salomon was created," says Richard Grand-Jean, a former Salomon Brothers managing director.

Today, Gutfreund, 65, is a long way from being "The King of Wall Street," as BUSINESS WEEK dubbed him in 1985. He works out of a small but well-appointed midtown Manhattan office and still dresses in proper bankers' pinstripes, answering his own phone after hours and fetching his own coffee. He keeps busy advising and investing in small companies with capitalizations of $50 million or so. "I'm old enough and disinterested enough that I'm not going to tell you you're the most beautiful girl in the world if you're not," he says. He serves as a board member of the New York Public Library and Montefiore Medical Center and as a fund-raiser for Oberlin College. On Apr. 22, he was to leave for Copenhagen for a meeting of the Trilateral Commission.


GUTFREUND: *Still fretting about Salomon's fate*

Yet Gutfreund has been unable to put the past behind him. On Apr. 18, he filed suit against Time Inc. for a factual error in *Fortune*. The magazine said that he "was barred from the securities business for life." In fact, he can't run a securities firm without special approval from the Securities & Exchange Commission. "I didn't do anything illegal and wasn't charged with doing anything illegal," he says. *Fortune* acknowledged the error.

Gutfreund is also fighting with Salomon over $27 million in benefits, stock options, and legal fees that he believes the firm owes him. He lost in an arbitration hearing and is appealing. More ominous is a $300 million lawsuit, filed by attorney Melvy I. Weiss on behalf of some Salomon shareholders, that alleges fraud and breach of fiduciary duty by Gutfreund and three other former Salomon executives in the Treasury bid affair. Gutfreund's legal bills total $8 million, and he has learned to live on less. "I'm not poverty-stricken," he says, "but I'm delighted to be doing business and making a few dollars."

"GREAT PRIDE." Gutfreund doesn't like to dwell on Salomon's current turmoil. But he is still emotionally involved with the firm. Following a luncheon speech at the Metropolitan Club in New York recently, several Salomon traders whom he hadn't talked to in four years came up and embraced him. "I'm not exactly the kind of person who people come up to and kiss," he says.

These days, Gutfreund professes to be worried about Salomon. "I sti take great pride in what we built," he says. "I am in pain when I see good people move on." He believes Salomon is in danger of losing its spirit. "The special quality of Salomon is not something that the management of today has thought about perpetuating or improving," he says. Of course, it was Gutfreund's own mistakes that contributed heavily to eroding that special quality. But given Salomon's current woes, his original contributions look a little more significant these days.

By Leah Nathans Spir in New Yor

NORTH SEA
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IN CATALONIA, OF COURSE.

n Catalonia, a country within Spain, we ot have abundant natural resources, we do rely on 6 million people who, for rations, have proven their enterprising t in commerce, industry, tourism, ness ...making of us one of the motors urope.

That is why in Catalonia we have me famous for calculating even while lance. This can be observed in the town city squares on any holiday when people of all ages join hands, and form a circle to dance the sardanas, our traditional dance, counting each step so as to end the dance all together with exact precision.

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Now you know in what country people calculate even while dancing.

Generalitat de Catalunya
Autonomous Government
of Catalonia

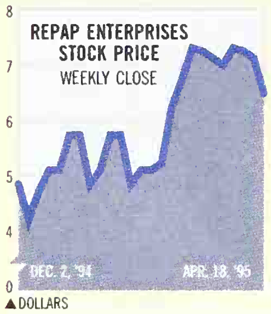
BY GENE G. MARCIAL

REPAP: NOT JUST A PAPER TIGER

Mention paper on the Street, and International Paper, Weyerhaeuser, and Champion International spring to mind. But some smart-money pros, including George Soros, are buying into Repap Enterprises (RPAPF).

Rep-what? It's North America's third-largest maker of coated paper, with a capacity of 1 million tons. No. 1 Champion International's volume is 1.3 million tons, and Consolidated Papers' is 1.1 million. Demand for coated paper is on the rise this year after a long slump. Why are Soros and other savvy pros snapping up Repap? Two reasons: a turnaround and takeover talk.

RIVAL EYES ON ITS MILLS



EARNINGS PER SHARE
1996 Est. **$1.70**
1995 Est. **85¢**
1994 **–55¢**
1993 **–$1.78**
1992 **–$2.18**

DATA: BLOOMBERG FINANCIAL MARKETS, GENESIS MERCHANT GROUP

Montreal-based Repap, in the red for about five years, made money at last during the fourth quarter of 1994. The betting is that earnings will be strong for all of 1995 and even more robust in 1996. Analyst Gary Craft of Genesis Merchant Group Securities in San Francisco expects Repap to earn 85¢ a share this year and $1.70 next.

Speculation is rife that a major paper producer wants Repap as a way to get in on the coming run-up in the coated-paper market. Buying Repap would be much cheaper than building new mills, says Will Weinstein, Genesis' senior partner. He thinks a Repap buyout "would be logical for any of the paper biggies, particularly the likes of Champion." But, he adds: "I frankly don't know which one will make a run for Repap."

Prices of coated paper—used mainly for magazines, catalogs, inserts, mailers, and annual reports—have firmed this year because of increasing demand. Craft expects Repap's turnaround will mean a higher price-earnings ratio for the stock, even without a takeover.

In spite of Repap's world-class operations and high-quality products, Craft says, it gets low marks from the Street. Based on its price of 6½ a share and Craft's 1996 earnings estimate of $1.70 a share, Repap's p-e is low—3.9. Consolidated Papers, on the other hand, has a p-e of 9. Craft thinks Repap shares are worth 12, based on its fundamentals alone.

IS KERKORIAN'S BID 'A BIG HOAX'?

What do takeover warriors of the 1980s such as Carl Icahn, Henry Kravis, Ron Perelman, the Bass Brothers, and Mike Milken think of the hostile Kerkorian-Iacocca attack on Chrysler (C)? They won't talk for attribution, and BUSINESS WEEK wasn't able to interview all of them. But the ones who spoke don't think a takeover will materialize. One of these pros privately described the Kerkorian caper this way: "The evidence clearly points to one thing—Kerkorian wants greenmail money, not Chrysler." So what's their advice? Short the stock. Icahn, for one, has taken big short positions in Chrysler.

"Believe me," says one veteran of several leveraged-buyout deals, "there won't be a takeover." In the end, both sides will agree to a buyback, he says—probably at a price below 55. "I've been there. I know when somebody seriously wants to acquire a company. This case tells me in so many ways that Kerkorian wants out," says another central character of many '80s takeover battles. "What Kerkorian is telling [Chrysler Chairman] Bob Eaton is that he [Kerkorian] will be a pain in the butt unless he's paid off. He has nothing to lose, and it's a smart move—for Kerkorian."

One sign that Kerkorian isn't serious about Chrysler: He didn't spend a dime lining up financing before he made his move. "Banks won't lend you money unless there is a clear way to a successful deal," says this pro.

"It's a catch-22, because a bank won't put up any money unless it's sure of success. But the courts won't throw out a poison pill unless the financing is there," he explains. He thinks this is why Kerkorian didn't put up any money for a bank to line up the financing. "He knew there wouldn't a deal—so why risk, say, $100 mill to get a financing guarantee? The of is a big hoax," he says.

THESE OPERATORS HIT THE JACKPOT

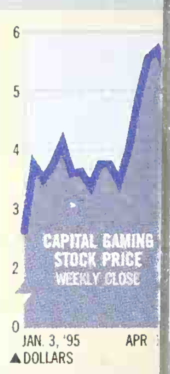
Who's running the multimillion-dol casinos owned by Native Ame can groups? One outfit is Capital Ga ing International (GDFI), the natio biggest manager of Indian gambl contracts. It has deals with eight tri that operate in Arizona, Califor New York, Oregon, and Washingt Capital's success has attracted so very conservative investors, mainly delity Investments, which has take nearly 15% stake.

As a result, its stock, which had l guished between 2½ and 4 since cember, has risen to nearly 6. "W its experienced management, solid-c operations, and ability to expand," C ital should be one of the more in guing gaming plays, says analyst M Manson of Donaldson, Lufkin & J rette Securities.

Soon, Capital will build a casino Rhode Island for the Narragans tribe, the first New England rival Foxwoods in Connecticut, wh monopolizes the local market. Cap has also just opened two riverboat sinos in New Orleans. They are p of a $208 million joint venture w Hemmeter Enterprises.

"The revenues from the riverboats and Indian casinos have exceeded analysts' expectations—and our own," says Capital Gaming Chairman Jack Davis, who spent 30 years as president of Resorts International. He was also president of Trump Taj Mahal in Atlantic City. Capital Gaming President Ed Tracy, who was CEO of Trump casino when Davis was ch man, expects blockbuster earnings revenues in 1996 and 1997, when our projects will be operating blast." One insider sees earnings of a share next year and $1 in 1997.

RUNNING CASINO —AND WINNING



DATA: BLOOMBERG FINANCIAL MAR

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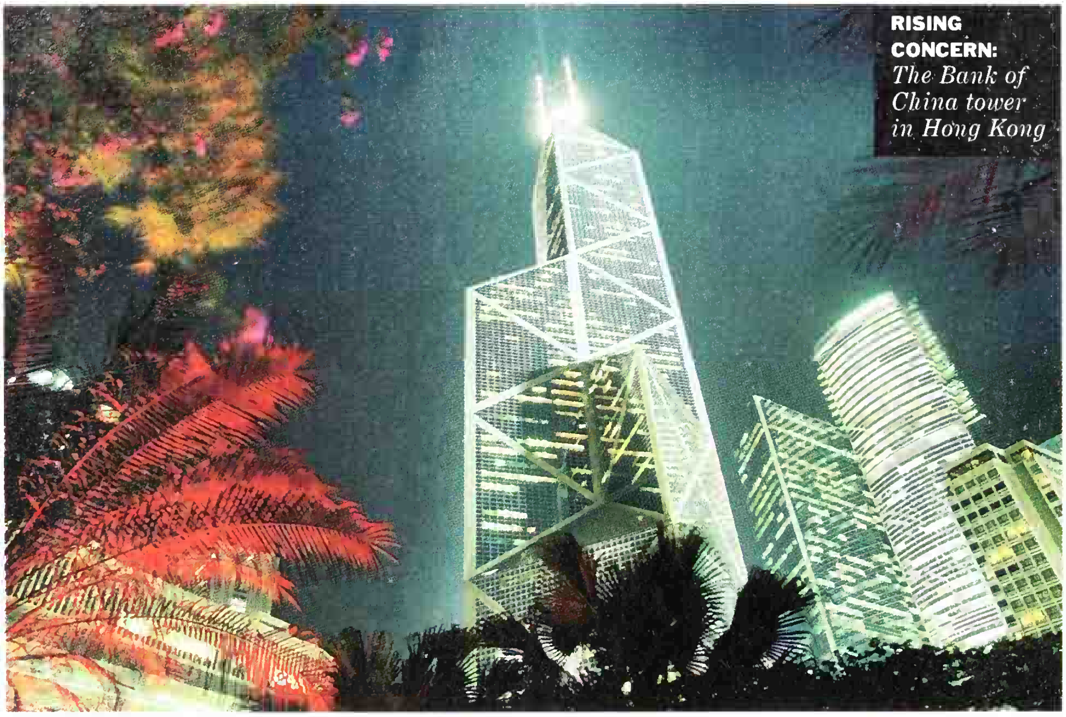
ASIA'S SUPERCITIES

Hong Kong is still No. 1–but rivals are nipping at its heels



RISING CONCERN: *The Bank of China tower in Hong Kong*

Peter D. Everington is ready to bail out of Hong Kong. As managing director of Regent Pacific Group Ltd., he's fed up with the island's outrageous property prices—and confusing politics. "Perhaps the more important consideration for us is the large degree of uncertainty over the runup to 1997," he says. So he may move the 25-person office, which handles $3 billion in funds, to Kuala Lumpur, where he can rent a five-room house with a garden and pool—for one-quarter the price of his 2,800-square-foot Hong Kong apartment.

Two years before Beijing's takeover, uncertainty is clouding the mood in prosperous Hong Kong. Exorbitant real estate prices and worries over political instability are forcing global corporations to assess whether they want to be in Hong Kong after 1997. Long the preeminent financial and business center in the region, Hong Kong faces intensifying attacks from Asia's emerging supercities. Shanghai, Singapore, Kuala Lumpur, Taipei, and Bangkok are bent on luring multinationals. They also want to grab a share of Hong Kong's wealth by establishing their own modern financial markets.

HONG KONG

ADVANTAGES: Gateway to China. Excellent infrastructure. Creative hub of Asia

DISADVANTAGES: High real estate prices. Uncertain political future. Brain drain

FOREIGN CORPORATE PRESENCE: Siemens, AT&T, Philip Morris, Hewlett-Packard, Sanwa Bank, Northern Telecom, CNN

NEW BOOMTOWNS. The cities that succeed stand to gain a lot more than face. Despite the recent financial blowout in some emerging markets, Asians are confident that hundreds of billions of Western dollars will continue to flow to their
region, the world's m
dynamic. Cities that
become Asian hubs
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Still, the race to
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Hong Kong Director-General of Indu
Denise Yue. Indeed, many obser
see a cluster of Asian cities evol
each with varying strengths. The st
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Asia's versions of New York, Hollyw
Silicon Valley, and Detroit.

Even with the increased competi
Hong Kong holds some strong ca
The territory remains the gatewa
China, and its economy is integr
with booming Guangdong prov
"Geography is very much on our s
says Clint Marshall, head of corpo
banking at Hongkong & Shanghai B
ing Corp. "We're 20 kilometers
where it's all happening."

The city of gleaming skyscrape
also non-Japanese Asia's financial
center, a locus of loan syndication,
management, venture capital, and s

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BUSTLING MARKETS: *Traders at the Singapore stock exchange*

brokering. Moreover, Hong Kong is a key product-development center for goods such as cellular phones, audio appliances, and electronic toys assembled in China. And of all the cities in the region, Hong Kong ranks as the most creative, with everything from kung fu films to "Canto-pop" hits produced and distributed there.

PILING UP. Yet Hong Kong faces difficult times. Soaring prices for prime office rentals have forced some companies to look for less expensive cities. Feuding between Britain and China has left the city in limbo. Beijing, dissatisfied with Governor Chris Patten's election reforms, says it will throw out the existing legislature in 1997. The two sides are at loggerheads over the makeup of a supreme court, threatening Hong Kong's rule of law, an essential ingredient in ensuring business confidence.

Other would-be Asian financial capitals sense opportunity in Hong Kong's troubles. Government leaders of Singapore, for instance, sell their city-state as a bastion of political stability and efficiency. Singapore has made a name for itself as a high-tech manufacturing center, with advanced research and development and production facilities. The nation of 2.7 million has long been the gateway to Southeast Asia. Now, it's pressing to pass Hong Kong as the financial and communications hub of Asia.

Singapore's successes are piling up. It has the fourth-largest foreign exchange market, a large futures market, and its banks are becoming powerful players in loan syndication. In a bid to attract money managers, Singapore has announced plans to allow foreign fund managers to manage a portion of the country's huge Central Provident Fund, the nation's mandatory savings plan.

But Hong Kong advocates counter that Singapore has a long way to go. The government's controls over its domestic media are a major problem, along with pressure felt by securities analysts to avoid negative reports. "As long as there are restrictions on the free flow of information, they can't expect to b major funds-management and stock-b kering center," says William H. Ov holt, managing director of Bankers Tr Co. in Hong Kong.

Nowhere is the rivalry between H Kong and Singapore more intense t in communications. News organizati such as *The New York Times* and *Today* have chosen Hong Kong, open news bureaus there recently. Singap has attracted entertainment groups s as HBO, ESPN, and Walt Disney, wh are investing substantial sums for stu os and production facilities.

"PAINLESS OPERATION." Much of credit goes to Singapore's Economic velopment Board (EDB). Its aggress bureaucrats offer one-stop shopping foreign investors interested in the c state. "They are very good at makin a painless operation to assess Sin pore," says Harold Anderson, vice-pr ident for programming and product at ESPN Asia (Singapore) Ltd. The offered ESPN tax holidays as well subsidies for training.

But the EDB can't do much about gapore's expensive labor, phone ra

SINGAPORE

ADVANTAGES: Gateway to Southeast Asia. Excellent infrastructure Tax breaks and incentives for favored industries

DISADVANTAGES: Rigid bureaucracy. Government controls on information. High labor costs

FOREIGN CORPORATE PRESENCE: Sony, Seagate, ESPN, Motorola, Unisys, Whirlpool, Caterpillar

SHANGHAI

ADVANTAGES: Gateway to inland China. Strong industrial base. Domestic financial center

DISADVANTAGES: Restrictive central-government policies. Infrastructure bottlenecks. Poor legal system

FOREIGN CORPORATE PRESENCE: Citibank, Alcatel, Volkswagen

INDUSTRIAL CENTER: *Bicycle production in Shangh*

(TOP TO BOTTOM) PHOTOGRAPHS BY R. IAN LLOYD, STUART FRANKLIN/MAGNUM

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VISION: *Proposed software-makers park in Taipei*

TAIPEI

ADVANTAGES: High-tech prowess. Free press. Government funding for targeted industries

DISADVANTAGES: Poor infrastructure. Unstable relations with China. Protectionist financial policies

FOREIGN CORPORATE PRESENCE: Mitsubishi Electric, Texas Instruments, Philips, Framatome, Ford

and cars. In fact, high costs in Hong Kong and Singapore provide others with an opening to become manufacturing centers.

Kuala Lumpur "has a distinct advantage over Singapore" when it comes to costs, says John F. McDonnell, chairman of McDonnell Douglas Corp., which recently chose Malaysia's capital for its regional headquarters. Labor costs are half those in Singapore, and rents are one-third of the city-state's. Malaysia also wants to enter the financial capital sweepstakes. Its entry is Labuan, a small island off the coast of eastern Malaysia. Labuan, an "international offshore financial center," has the lowest tax rates in the country and looser rules on foreign exchange. It has about 400 offshore companies and 40 foreign banks.

TRAFFIC JAMS. Malaysia might be taking on more than it can handle. Its bureaucracy is cumbersome. Expatriates can wait up to 18 months to get a work permit—and the government has tough limits on the number of expatriates it will allow in. Unlike Hong Kong and Singapore, it doesn't afford expatriates favorable tax treatm Pollution and traffic gestion are worsening

Another city known its traffic jams, Bang is angling to make it Asia's auto-assembly ter. Bangkok bene greatly from the prese of such major Japan auto makers as Toy Nissan, Honda, and zu, which have been the area since the mid-1980s. That g Thailand a selection of parts suppl that have been brought up to w standards by the Japanese. "The su er base cultivated by the Japanese is credible," says Bill Kennedy, regi manager for Chrysler Corp., whic favoring Thailand for the role of Southeast Asia hub.

While Bangkok concentrates on auto industry, Taipei is targeting tech. Companies in and around the wanese capital have made the is the world's leading producer of in scanners, computer mice, and moni It's quickly becoming a large semi ductor source as well. The governm is building a $300 million software-de

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ent park in Taipei and has targeted ɛey industries, including aerospace semiconductors, for incentives, govnent funding, and other backing.

ike their counterparts in Singapore, vanese officials also dream of takon Hong Kong in finance. Taiwan announced plans to build a "Wall et" of Asia, replete with New York- twin towers, in Taipei. But compa- are doubtful. The main reason is van's slow pace of deregulation. For- banks, for example, are limited tly to trade finance and hampered eams of red tape.

erhaps no city is more eager to take Iong Kong than its old rival, Shang- It has experienced three consecutive s of 14% growth as billions in for- investment have flowed in, especial- the new Pudong district. In every- from bicycles to autos, Shanghai is center of manufacturing for China. city's four-year-old stock market is ia's largest. City leaders want more. aim to become the international financial business center in the ern Pacific," says Hu Yanzhao, chief omist at the Shanghai Municipal ning Commission.

nder current policies, Shanghai is ɛely to reach that goal. Chinese ers, fearful of losing control of the omy, have resisted opening their financial markets. For instance, Beijing authorities, spooked by the market's fall last summer, put the brakes on new listings at the Shanghai exchange.

Further compounding Shanghai's headaches is the inability of China's banking sector to modernize. Strapped with huge debt from nonperforming loans to state enterprises, China's specialized banks have been unable to remake themselves into commercial banks. "The delay of financial reforms will delay the establishment of Shanghai as an international finance center," says Guan Jinsheng, vice-chairman and CEO of Shanghai International Securities Co., the brokerage firm recently cited in a major bond-trading scandal.

Even so, Shanghai leaders don't worry about losing out to Hong Kong. They say the two can play complementary roles, with Shanghai the domestic financial hub and Hong Kong the international center. "China needs several Hong Kongs and Shanghais," says Hu. "For 1 billion people, I'd say we need about 12 Hong Kongs or Shanghais."

Even with the high rents and political uncertainties, Hong Kong remains the preferred location for Western corporations looking to coordinate China business. Frank Martin, president of the American Chamber of Commerce in Hong Kong, says membership is at a five-year high, with 52 members joining in December alone. "Hong Kong is the closest to a perfect Asian center," says Mark Michelson, director of Warren Williams International, a public-affairs consultant in the territory.

But Hong Kong's advantages of location and personal connections with China's elite will only take it so far. China is not the only player, as India, Indonesia, and others rev their engines. The shock of adapting to the new world of Chinese sovereignty is likely to change Hong Kong and the way it operates. In the face of such uncertainty, Singapore, Taipei, and the other would-be supercities see opportunities aplenty.

By Joyce Barnathan in Hong Kong, with Margaret Dawson in Taipei, Pete Engardio in Bangkok, and Ellen White in Singapore

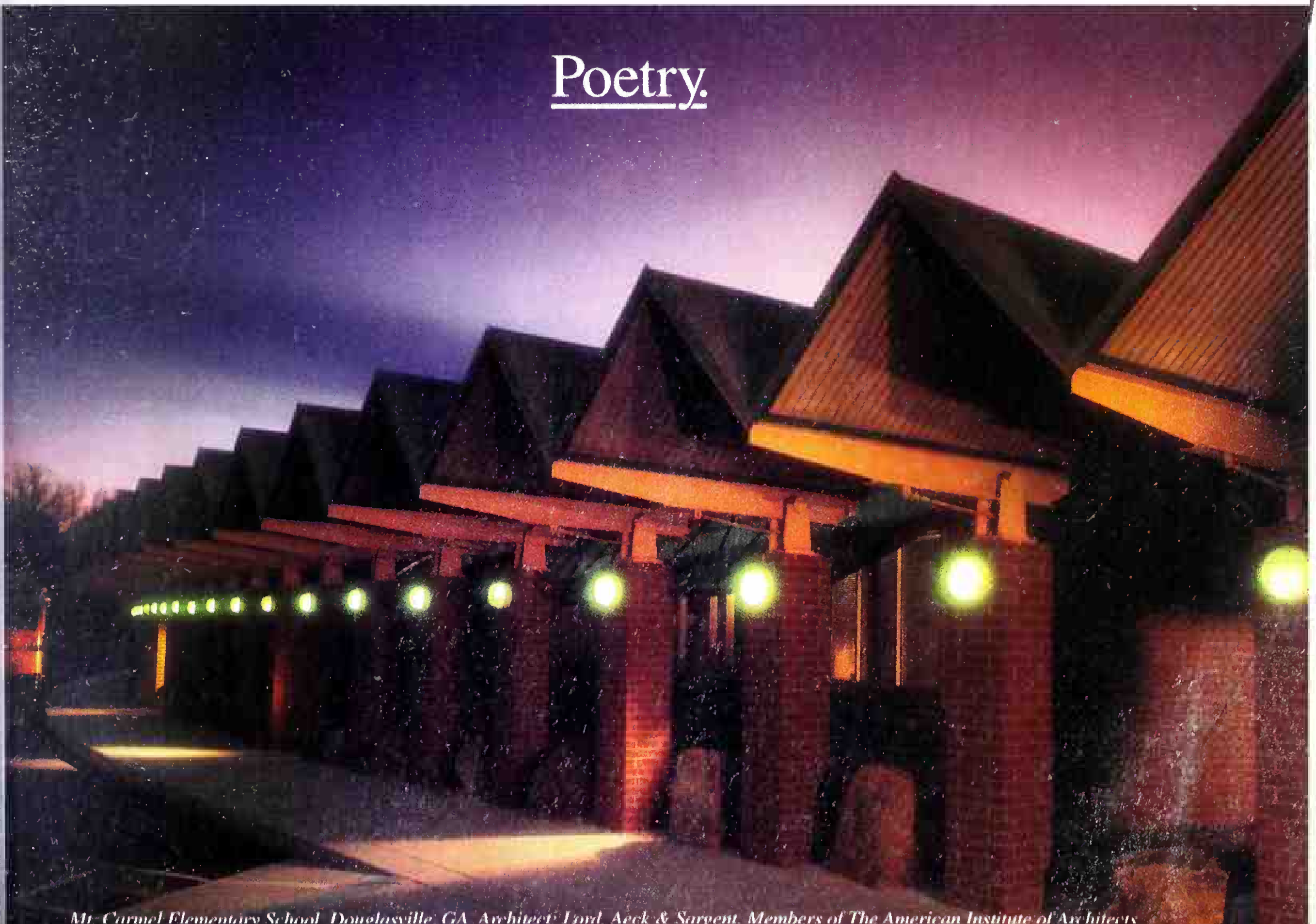
BANGKOK

ADVANTAGES: Low labor costs. Favorable foreign investment policies. Advanced network of auto-parts suppliers

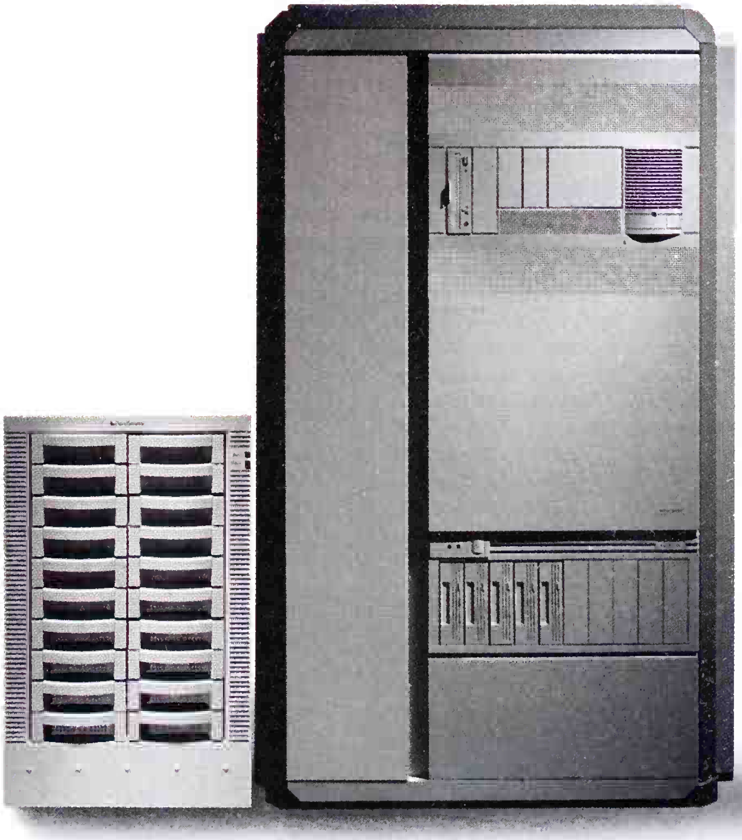
DISADVANTAGES: Bad infrastructure. Poor legal system. Worsening pollution

FOREIGN CORPORATE PRESENCE: Toyota, Honda, Chrysler, Minebea

Poetry.



Mt. Carmel Elementary School, Douglasville, GA. Architect: Lord, Aeck & Sargent. Members of The American Institute of Architects.



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COMMENTARY

By Catherine Yang

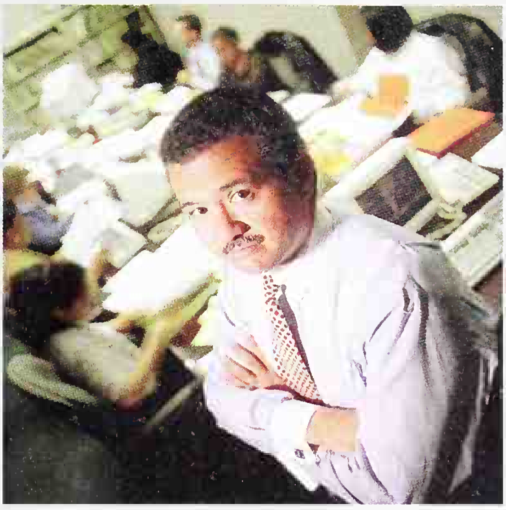
THE EEOC: TOO SWAMPED TO SHOOT STRAIGHT

or Donald L. Monin, the Equal Employment Opportunity Commission has been) help at all. The 55-year-old echanical engineer filed an age scrimination complaint with e agency in February, 1993, af- r he was laid off by McDonnell ouglas Corp. After 29 years, onin had risen to his unit's top ısition—only to be replaced by o employees at least 20 years unger.

The EEOC dismissed his charge st fall without ever interview- g him or his witnesses. And al- ough he has since persuaded e agency to reopen the inquiry, onin is still angry that it took e company's explanation for the yoff at face value. "They're not ly not doing their job," he fumes, ney're working against me." The OC and McDonnell Douglas de- ned comment.

GGER BURDEN. Monin learned the rd way what many others already ow about Uncle Sam's bias police: ey can't shoot straight. The agen- , which was set up in 1964 to en- rce employment discrimination ws, has seen its staff shrink while caseload has soared. Today, it's ing a backlog of almost 100,000 mplaints, more than double the 90 figure (table). "The agency has st all its clout," says Stephen E. llent, a Washington lawyer who presents employers.

Already overwhelmed, the EEOC ll be swamped if Congress out- ws affirmative action programs. t Presidential hopefuls Senators b Dole (R-Kan.) and Phil Gramm -Tex.) want to scrap programs to ing women and minorities into the rkplace. In their place, they uld have the belea- ered agency shoulder e entire government rden of combating ployment discrimina- n. But no one is in a rry to come up with ney to fix the EEOC. ld it all up, and it's ar: Banking on the OC to battle discrimination on the job won't work.



NEW CHAIR: *Casellas must boost efficiency*

KATHERINE LAMBERT

Things are so bad at the agency that many workers are choosing to file private lawsuits rather than go through the EEOC's administrative process, which can take as long as four years. In legal circles, some attorneys are so contemptuous that they regard it as "malpractice to file an EEOC charge," says Lloyd C. Loomis, a senior counsel at oil company Arco in Los Angeles. But that doesn't mean the agency, in theory, can't serve a vital function. For the vast majority of workers, "the EEOC is their only hope," says Los Angeles plaintiffs' attorney Nathan Goldberg.

SNAIL-LIKE PACE. Trouble is, the EEOC has never really had a chance to do its job right. Chronically underfunded, the agency's woes have grown more acute over the past decade as Republican Administrations squeezed its budget while lawmakers kept passing more antibias laws. Now, on top of the 1964 law barring discrimination based on race, ethnicity, national origin, religion, and gender, it polices bans against age discrimination, sexual harassment, and bias against the disabled. "The EEOC has been the product of one tinkering after another," says Ronald Cooper, a Washington employment lawyer.

Another problem: The agency must conduct a full investigation of every complaint. When Supreme Court Justice Clarence Thomas was EEOC chairman, he reversed an earlier policy that emphasized quick resolutions but left many charges underinvestigated. Thomas' decree, though, has slowed complaint processing to a crawl. And because of the swelling case load, investigators are still forced to rush through examinations. Full investigations are "a fiction when you have 100,000 cases," says EEOC Chairman Gilbert F. Casellas. "You just can't do everything."

Casellas, a corporate lawyer from Philadelphia who took over last October, is doing away with the Thomas model. He's pushing to make the agency as efficient as possible with the resources it has. He is readying a new prioritization system that would help weed out weak cases. And he'll likely seek to speed up cases through voluntary mediation. Casellas is on the right track, but he concedes that these fixes are "not magic bullets."

Even in its crippled form, the EEOC does wield influence over the workplace. The very presence of a federal watchdog helps check employers' behavior. If GOP leaders are serious about using it as the front line against discrimination, they'll have to put more dollars and muscle into the weakened agency so it can finally do its job. If not, they'll be sending the signal that fighting bias isn't worth much.

Yang writes about legal issues from Washington.

Snowed Under

	FY '90	FY '91	FY '92	FY '93	FY '94
BACKLOG OF CASES	41,987	45,717	52,856	73,124	96,945
NO. OF INVESTIGATORS	762	727	736	738	732
BUDGET MILLIONS	$184.9	$201.9	$211.3	$222.0	$230.0

DATA: EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

FORD WINDSTAR
The Treeces found the door layout wanting

EDITED BY AMY DUNKIN

THE GREAT FAMILY VAN DERBY

CAR BUYING

The first week in April is usually early to start the picnic season in Michigan. But when four adults and nine kids bundled up on a recent Saturday to dine alfresco in Independence Oaks Park north of Detroit, we had more on our minds than turkey sandwiches and potato salad. The journey was as important as the destination: We were putting the top three new minivan models—the Dodge Grand Caravan, Ford Windstar, and Honda Odyssey—to the test.

Because each is slightly different in styling and features, choosing the "best" minivan is largely a matter of personal taste. To gauge their appeal, BUSINESS WEEK arranged for three families to take the vans on a half-day outing. Parents, all minivan veterans, would take turns driving. In general, our group was unanimous in its praise for two things: pretzels and four doors. Unlike traditional three-door minivans, the Dodge and the Honda have rear doors on both sides, a convenience everyone could appreciate. More about that later.

WARM WIPERS. The Dodge Grand Caravan SE we tested was an all-new version of the Chrysler models that launched the minivan segment way back in 1983, while the Windstar and Odyssey were introduced last year. The "Grand" in Grand Caravan identifies its extended 200-inch overall length, the largest Chrysler makes. The Windstar is about the same size and, like the Dodge, has a V-6. The four-cylinder Odyssey is noticeably smaller at 187 inches long. It's also shorter: 65 inches vs. 68 for the other two. The Odyssey doesn't offer a V-6.

Our Dodge was loaded with every feature imaginable, at a sticker price of $21,890. The rear sliding door on the driver's side is a $450 option. A $230 feature we liked was a defroster made up of three lines of wire near the base of the front windshield to free the wipers should they freeze up.

Our Odyssey LX came with four standard carlike swing-open doors. This model, priced at $24,020, also has captain's seats in the middle row. They keep the kids apart but reduce the seating to six instead of the usual seven. Our weekend W
star GL was something
anomaly for a review c
bare-bones model. Cert
the Windstar can come
power everything. But
for whatever reason, se
their base model, with
windows and no rear
froster. No matter: It s
how much you get in a
van even without the
dads—and how hard it
find a new one under $2
With a scant $1,000 in
tions, including air-cond
ing and floor mats, ours
ried a $20,875 sticker. F
include destination cha
but exclude title and ta

The Windstar is only
able with the three-door
out that most minivan ow
know: two front doors
one sliding rear passe
side door. This layout ha
tinct disadvantages. "
just one way in on the
the kids all charge into
other" as they climb ab
said Andrew Keys, a s
dad of three who trad
his aging Ford Aerostar
van last month for an
nomical Ford Escort st
wagon. Moreover, "you
amazed what collects b
the seat behind the driv
you could just get to it

DODGE GRAND CARAVAN

Sliding doors on both sides allow kids to exit without the usual crunch

l clean out that space.” espite the consensus t four doors, Chrysler’s did not win raves. Mar- Perraut preferred Hon- swing-open doors “be- it’s harder for my kids anage the sliding doors.” anne usually drives her children in a Plymouth d Voyager. The day of uting, they were joined vo cousins and a friend.

TTLE PLASTIC.” Kathryn ce, my wife, is the main r of our Mercury ger. It is midway ize between the sey and Wind- -about right for us our son. She had le adjusting to the ge’s door handles, must be pulled to “un- ” an open door before it slide shut. Nonetheless, referred sliding doors to -open ones. With slid- doors, she noted, “if e got another car in the ge, you’re not always ing up against it. Same in a parking lot.”

the picnic, the kids taste a soft drink, put wn, and try another. vise, we kept trying out ninivans—and disagree- n our tastes. Andrew the Dodge best overall: anything, it was too smooth. I kept finding my speed creeping up.” For Kathryn, the Windstar had the best acceleration and most sensitive brakes, while the Grand Caravan felt “the heaviest.”

Marianne was comfortable in the Honda and Dodge, less so in the Ford, which to her felt “just a little plastic.” She enjoyed driving the Odyssey the most but added, “I’d never buy it,” since the others offered the extra seat and more space in the back. Behind the rear seat, the Odyssey has a storage well, but Kathryn dismissed it as “narrow and small.”

I agree. In theory, the Odyssey offers extra space, because the rear seat folds down flat into the floor. In practice, that only works with four passengers or fewer. Opting for the standard middle bench seat for three, instead of the two captain’s seats, only compounds the problem. The bench makes for a two-three-two seating arrangement. To get to the rear, you fold the back of the middle seat forward, then tilt the entire seat up. Sound complicated? It is—so kids just climb over the half-folded seat in their rush to get out. On an earlier test drive of the seven-passenger Odyssey, with the three-person middle seat, I found the rear seat almost unusable.

CLOSE CALL. In testing controls and switches, I disliked the cramped buttons on the Caravan’s cruise control. Andrew faulted the small radio controls on the Honda. Both he and Marianne noticed less acceleration in the Odyssey than in the V-6s, although I thought the Honda had sufficient power. Otherwise, said Andrew, “I was struck by how basically similar all three are. They’re all smooth-riding, all similar in size, and all have the same feel on the road.”

HONDA ODYSSEY

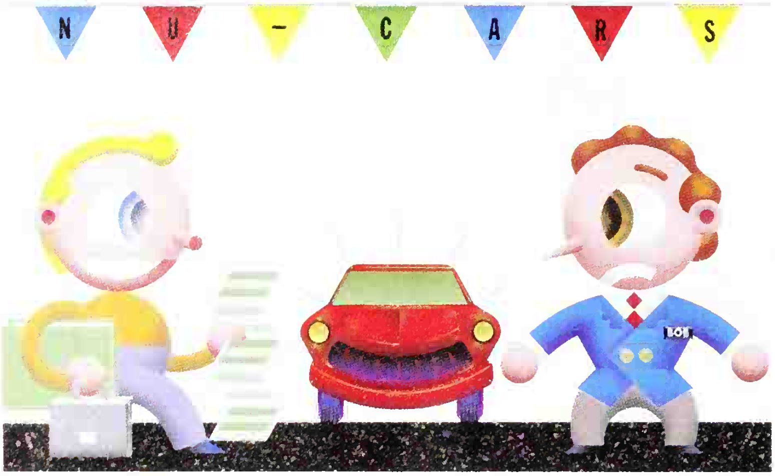
Captain’s seats limit family feuds by keeping combatants apart

None of our group had complaints about road manners. In their ride and handling, all three vans were relatively car-like, given their substantial size. The fact that none of them emerged as the undisputed winner is a sign of how close the competition is these days. The key differences seem to be number of doors, engines, and seating arrangements, followed by the option lists.

Finally, interior noise on these three has been reduced considerably compared to prior minivans. This can be a big help when the driver and someone in the rear seat are trying to hold a conversation. On the other hand, it can be an unfortunate improvement when road-weary children launch into their umpteenth verse of *This is the song that never ends.*

Jim Treece

(LARGE) PHOTOGRAPHS BY PETER YATES/SABA (3)



GIRDING FOR THE SHOWROOM SHOWDOWN

CAR BUYING

Your old clunker of an automobile has finally succumbed, so you're about to take the plunge and buy a new set of wheels. But it's been five years since you've entered the new-car market, and the idea of dueling against some master salesman—yes, still typically a male—is rather intimidating.

Rest easy. Nowadays, you can march into a showroom armed with gobs of information, much of which wasn't readily available the last time you plunked down money on a car. Before talking turkey, though, Jack Gilles, author of *The Car Book* (HarperCollins, $12), advises that customers consider at least three different cars in the same price range and vehicle class. "The biggest mistake we make is falling in love with a particular car and therefore losing the psychological ability to walk away from a bad deal," he says.

NO HURRY. Next, Gilles believes prospective buyers should take each car for a long test drive. Go on the highway, park it in your garage, put things in the trunk, and get an overall feel. By taking a longer trip, you also reduce the chances that a salesman will come along for the ride and pressure you.

Once you're happy with the car, you can get down to haggling. Your chief objective is to find out what the dealer paid, and then use that as a reference point to make an offer. Dealer cost is usually expressed as the invoice price—a figure widely available in books, at credit unions, and in pricing summary reports. These include reports from AAA (800 597-5050, $12 plus handling for the first vehicle, $6 for each additional), Consumer Reports (800 594-9245, $12 for the first, then $10), AutoIntelligence (800 445-6111, $14, then $10), and Car/Puter (800 221-4001, $23 for the first, then $16, and $9).

But the invoice price rarely reflects a dealer's actual cost, because of incentives such as factory-to-dealer cash payments that are made from time to time on certain models. There is also usually a holdback, a concealed profit—often 3% on domestic cars—that is kept by the manufacturer until the car is sold.

The biweekly *CarDeals* newsletter published by the Center for the Study of Services in Washington, D. C. (202 347-7283, $4.50 per issue) gives information on current rebates and incentives offered on new models. You can also order *CarDeals* or separate price reports from the Car Price Network fax-back service at 800 227-3295.

SLUMPS HELP. Whenever possible, buyers should research the business and automotive press to help determine how well a car is selling. Knowing the market can help you bargain from a position of strength. "If you want to buy a Caravan, walking in there knowing sales are down 22% [through March] this year is really big information," says W. James Bragg, author of *In the Driver's Seat* ($12, Random House). "They need me a lot more than I need them." Bragg's Fighting Chance car reports (800 288-1134, $22.95 for the first vehicle, $7 for each additional) include buying tips, *CarDeals*, and the latest inventory data and holdbacks.

The ArmChair Compare Report from IntelliC
(800 227-2665, $19.95),
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five-year ownership cost
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can consult IntelliChoice'
Complete Car Cost
($45), a comprehensive
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New-car summaries
free for members of
Vantage (800 999-4CAR
a year or $1 for a t
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markup. Even if you
want to buy through
dealer, you can use the
as a bargaining chip i
other showroom.

Indeed, Robert Kru
who heads CarBargai
buying service run by
same outfit that publi
CarDeals, advises consu
to pit one dealer agains
other by giving each a s
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voice price. He advises
you make them show yo
invoice. Customers who
want to dicker on their
can hire CarBargains
475-7283) to fetch the
prices. For $135, the se
solicits five or more com
tive blind bids from de
ships in your area. The d
side: The dealer with
lowest bid may not have
precise car you are loo
for on his lot. So you
end up sparring with a d
after all. *Edward*

Six Steps Toward Sales Floor Savvy

1 Don't fall in love with a single model. Consider at least three cars in the same vehicle class so you can walk away from a bad deal.

2 Take a lengthy test drive with each car.

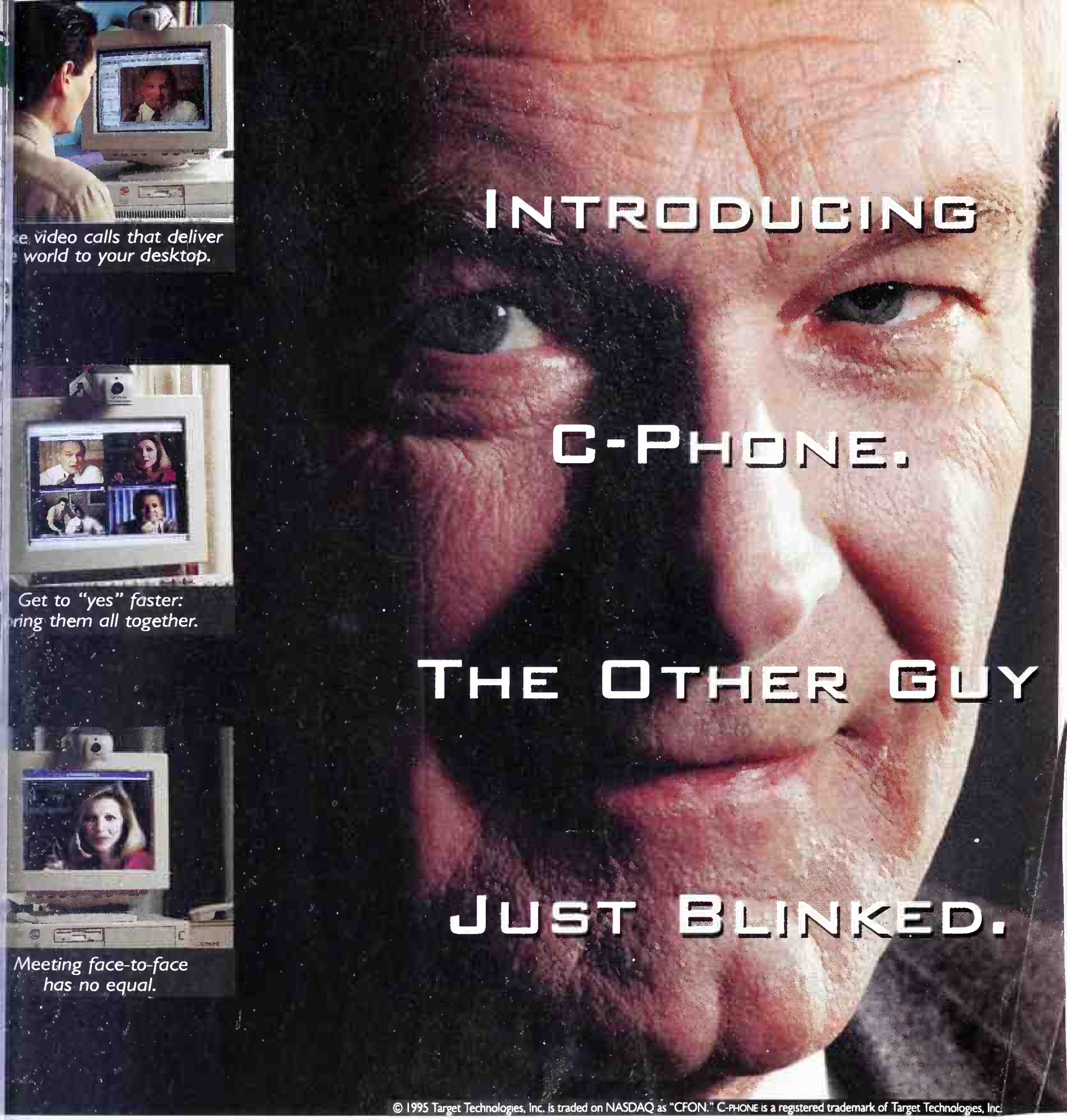
3 Find out the dealer cost or invoice price from information sources such as Consumer Reports New Car Price Service.

4 Consult the *CarDeals* newsle
tter to find out factory-to-dea
or other incentives.

5 Look up articles in the trade and business press to determine how well a model is sellin
and whether there have been quality problems.

6 Tell dealers you are pitting o
against another. Give each o
chance to offer the best bid.

DATA: BUSINESS WEEK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ACURA 3.2TL

Its V-6 gives it punch, its soft-sprung suspension gives it padding

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CAR BUYING

As the market for true luxury cars stagnates, auto makers are focusing on the growing midrange of near-luxury cars that sell for $25,000 to $35,000. Two impressive all-new models arrive this month. Infiniti's I30 sedan is a dressed-to-the-nines version of Nissan's Maxima, bridging the gap between the $22,875 Infiniti G20 and the sleek $38,550 J30. Acura's new TL series has no counterpart in parent Honda's lineup. Instead, it replaces the Acura Vigor, positioned between the sporty $15,700 Integra and the $36,100 Legend.

While no head-turners these—both hew to the conservative Japanese rounded-off look—there are some nice touches. For the I30, Nissan designers smoothed the Maxima's front and rear and added a formal grille that evokes the Q45, Infiniti's flagship. The similarities don't end there: An aluminum V-6 provides the same quick acceleration, and precise steering and an agile suspension keep the driver firmly in touch with the road. I found Infiniti's touring version, the I30t, with its stiffer suspension and shocks, a bit jittery on some surfaces, particularly concrete. The car will start at just under $29,000 when it hits showrooms at the end of the month, and the fully equipped I30t will top out just shy of $34,000.

With its new TL cars, Acura is emphasizing the brand rather than individual models by dropping names in favor of alphanumerics—the Integra and Legend will also be rebadged when they are replaced. The 2.5TL, with an in-line five-cylinder engine, starts at $27,900 and is available now. A V-6 version, the 3.2TL, will range from $32,950 to $35,500 when it arrives in July. The two Acuras, with softer suspensions and too much power-assist in the steering at lower speeds, don't relay as sporty a feel as the Infiniti, but the well-mannered pair are better at isolating occupants from the road. Their cabins are freer of extraneous sounds, such as wind noise, though the smaller engine tends to roar when pushed.

But for this market, it's the interiors that really matter, the countless features that pamper. These cars have generous headroom and rear-seat legroom, intuitive instrument panels, and enough of a sense of luxury to distinguish them from down-market kin.

While both the Infiniti and the Acuras offer the requisite wood trim—though still simulated at these prices—the Infiniti holds the edge in the details. Its woodgrain ashtray and storage compartments, for example, glide open at the touch of a finger, compared with Acura's conventional spring-loaded plastic lid. I found Acura's dash-mounted clock and hazard-light cluster particularly jarring to the senses, especially the cheap plastic door over the clock controls. Some I30 versions feature HomeLink, three tiny buttons on the driver's visor that can be programmed to open garage and estate doors, turn on the house lights, or do other tasks that use a radio-frequency transmitter.

RED VELVET. By and large, the Japanese still haven't figured out what to offer the increasingly prevalent nonsmoking American driver. Acura ashtrays, which sit just to the right of the cigarette lighter, come with a removable red-velvet liner stamped "coin holder" and "no smoking" in gold. Infiniti leaves the ashtray intact but makes the lighter an option. Instead receptacle, covered wi plug that says "12V DC, comes an outlet for such tronic gizmos as port phones and radar detec Both should learn from General Motors and M models whose ashtrays vert to cup holders they're not needed.

Speaking of cup hol both companies thought recess them in the center sole between the passen rather than resorting t usual contraptions that out from the dash—rend radio and temperature trols inaccessible. The A are designed to accomm a variety of sizes, whil Infiniti's should be more called can holders.

Despite styling that toward the ho-hum, ther lot of value here. Thes both well-bred, well built cles, and even the base are jam-packed with l cues and amenities at p not that far above more stream sedans. They can raise the ante for carm who aspire to the mid-l class. *Larry Arms*

Other Midran Luxury Choic

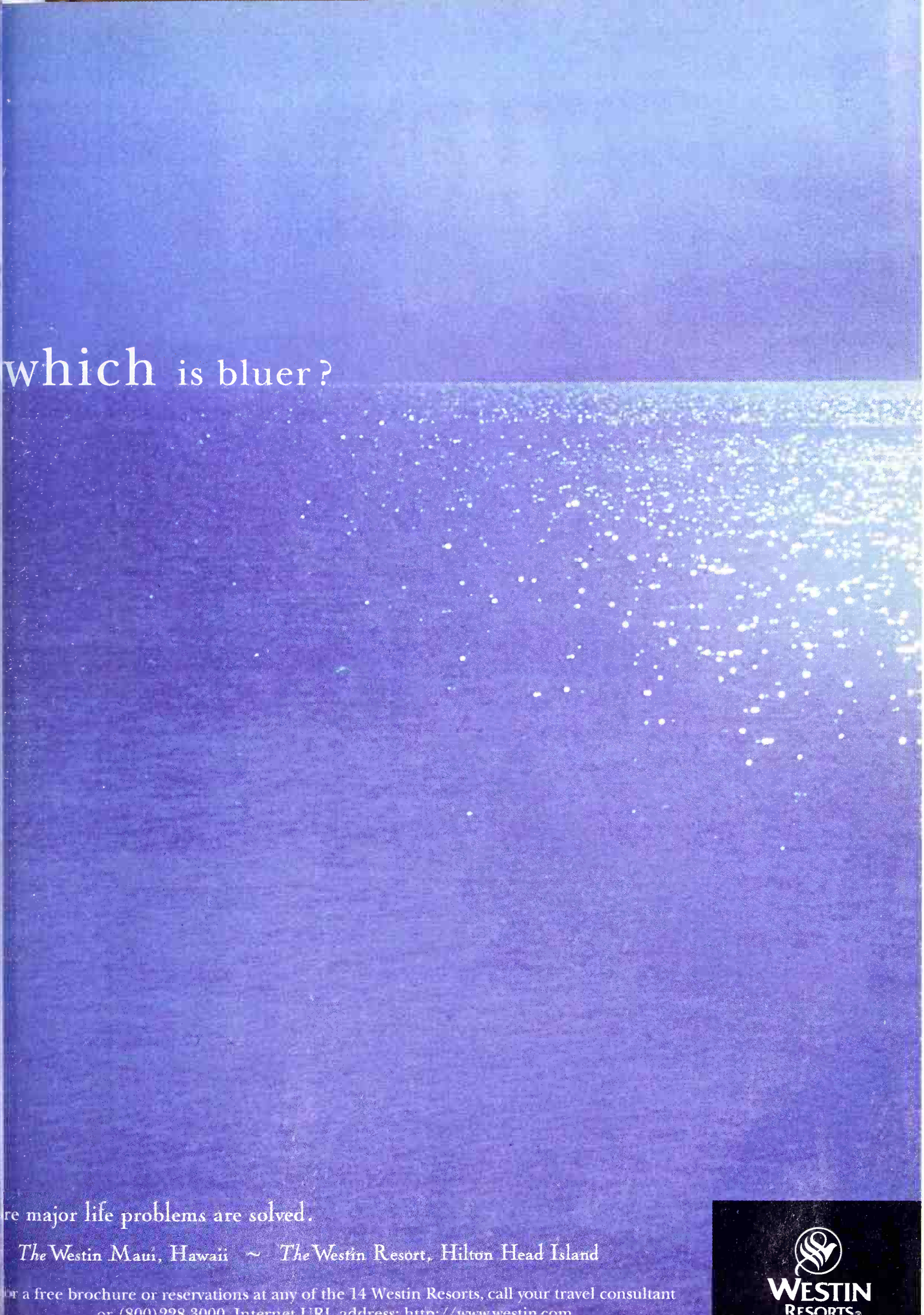
MODEL	P
OLDSMOBILE AURORA	$33
LEXUS ES300	31
BMW 325I	31
MERCEDES C220	30
MAZDA MILLENIA	27

* Base models, excluding destinatio charges

DATA: BUSINE

INFINITI I30

Interior appointments have an edge over the Acura's



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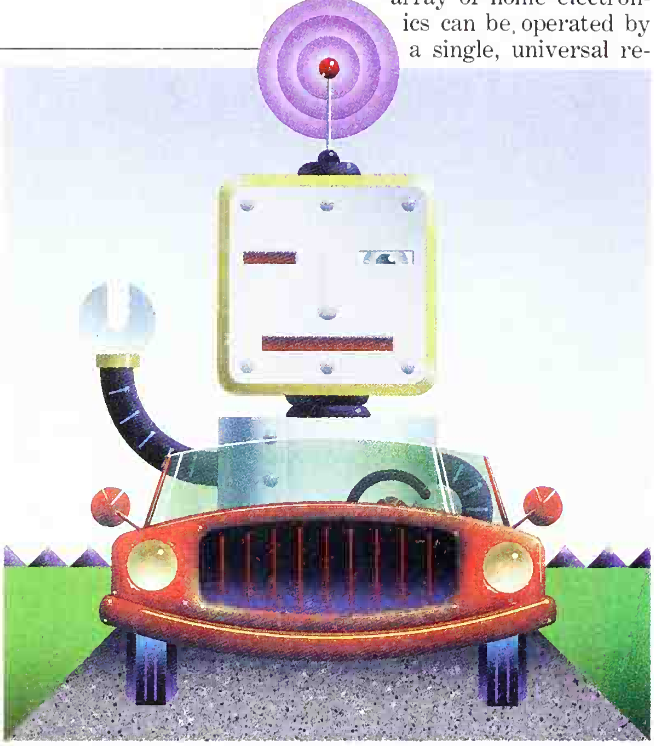
THE SMART CARS AHEAD

When it comes to dreaming up features and gadgets to tickle the fancy of auto buyers, no idea is too high-tech—or low-tech—for carmakers. And the latest crop of what Detroit likes to call "surprise-and-delight features" runs the gamut.

In the ingenious-but-simple category, there's the ping-pong ball in the gas tank of the 1995 Chevrolet Lumina. This simple device stops pesky gasoline splash-back when you're filling your tank. When you're done pumping gas, the ball bobs up to seal the opening. Chrysler had the inspiration to add a narrow heating band to the front windshield of its new 1996 minivans. That's to keep the wipers from freezing to the glass in a winter storm—just when you need them most.

At the other end of the spectrum are satellite-linked navigation systems with mechanical voices that can direct you to unfamiliar destinations. The Guidestar navigator made by Rockwell International appears on some 1995 Oldsmobile Eighty-Eight sedans as a $2,000 option in California and several other states. Volvo's Dynaguide Info System adds the latest traffic reports. Dynaguide goes on sale in Europe later this year, but won't be available in the U.S. until federal regulations on telecommunications are set, Volvo says.

PAL IN TEXAS. Or how about the cellular phone that dials 911 or roadside assistance for you in an emergency, then uses satellite information to tell rescuers your location? Lincoln's Remote Emergency Satellite Cellular Unit (RESCU) will be available on the 1996 Continental luxury sedan for an as-yet undisclosed price. Pressing one of two emergency buttons marked by either an ambulance or a tow truck icon will alert a response center (that happens to be in Texas) to notify the nearest police, fire, or medical unit, or summon a tow truck anywhere in the U.S. that has cellular service. Meanwhile, the response center's staff will stay in touch with the motorist until help arrives. The system can also notify a previously designated list of family or friends. Thanks to technology from TRW, a similar "Mayday" system that automatically alerts emergency crews when the car's air bags deploy or its crash sensors are triggered will one day be available.



Other auto gizmos are aimed at easing the irritations of everyday life. Your array of home electronics can be operated by a single, universal remote. Why not do the same from your car? The HomeLink transmitter, which operates three electronic devices—the garage door opener would be an obvious candidate—comes standard in the driver's visor of the Mitsubishi Galant LS sedan, and is featured on some versions of the new Infiniti I30 luxury sedan. Most Infinitis also come with a standard keyless entry fob that not only lets you open your car doors by remote control but, if pushed and held, will also roll down the windows—handy in warm climates.

CAR BUYING

Engineers also want to make it easier to get into and out of cars. Johnson Controls has taken it upon itself to design a "drop bolster" th
tomatically lowers the
edge closest to the door
that door is opened. The
pany hopes the feature
yet available, will appe
older buyers and wom
tight skirts.

BACK RUBS, TOO. Head
are supposed to protec
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they only work if th
properly adjusted. Lear
ing soon hopes to be sel
four-way power headres
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termine the position
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of the headrest every
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meanwhile, is testing a
seat that uses a back-ma
ing device developed b
gomedics. The Back
moves a lumbar su
slowly out and back to
work the spine and r
back fatigue. Ergomedi
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by the 1997 model year,
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To help drivers and
sengers breathe easier,
cy air filter is standa
Ford's 1995 Contour
Mercury Mystique co
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tem filters out pollen,
and other tiny airborne
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when stuck in traffic
tunnel, Robert Bosch
hopes to sell its new
tronic sensor: When th
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Meanwhile, Bosch se
reason why a few rain
should distract a drive
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the market, that autom
ly turns on the winds
wipers and closes the su
at the first sprinklings
or first flakes of snow.
it adjusts wiper speed
amount of moisture. A
rate, how long will it
fore engineers manage
sign a car that can
itself? *Kathleen K*

Your mate says: "Trust me, left at the light." Now, you can get a second opinion

CAR BUYING

W COMES
IE SECONDHAND LEASE

vas bound to hap- : The auto leasing m has begun to l over on to used- lots. With it 2 million and three-year-old ve- s coming off lease this some auto makers are king up leasing pro- is to help unload them. ake the cars more allur- they're offering extend- arranties and roadside tance. Some have even ed subsidizing leases to en monthly payments.

course, buying is still heapest option over the haul. Leasing a 1992 s LS400 for three years, purchasing it over the two, costs roughly $700 than simply taking out -year loan. Most people, while, don't even pur- the leased car, and they ıp owning nothing. So if drive cars until they fall , you're better off buy- Likewise, if you drive than average, steer Most leases charge pre- ns of 10¢ or 15¢ for mile over 15,000 ır.

ON RELIEF. Still, ng may have big al for some. It lets lrive a fancier car, the payments are lly lower. It's also ctive to those who pony up the typi-)% used-car down- ient—or who l rather spend the y elsewhere. 's even truer now some carmakers efurbishing used and offering ex- ed warranties that c those of new els. Such steps re- some of the risk nechanical problems. Best of all, if the car turns into a repair headache, you can walk away at the end of the lease.

So far, pricey brands such as Jaguar and Lexus have pushed hardest into used-car leasing, but more prosaic marques such as Ford are test-marketing programs to help move the metal, too. As the number of used cars coming off lease continues to grow, expect a spate of attractive promotions.

Tread carefully, though. For starters, leasing a used car or truck can be nearly as expensive as choosing a new one. A typical 1992 Mercedes 300E goes for about $600 a month on a four-year lease—the same price as leasing a new 1995 E320. That's because Mercedes figures the '92 will depreciate by about the same dollar amount over four years as the new version. Obviously, in such instances, you may as well drive the new one. Leases for late-model luxury cars often are close to new-car deals, so often your best bet is cars at least four years old.

That said, there are still good deals to be had. In particular, luxury-car makers, who must unload a flood of cars coming off their first lease this year, are worth checking out. You can lease a 1992 Lexus LS400 for three years for $600 a month, vs. $850 a month for the new, redesigned '95. Be sure the car is a "certified pre-owned" Lexus. That designates a car that has been refurbished, has passed a rigorous inspection, and is backed by a factory warranty for an additional two years, or up to six years and 70,000 miles. And you can receive service at any Lexus dealer.

Used vs. New

	USED 1992 TOYOTA CAMRY	NEW 1995 CAMRY
STICKER	$14,000	$20,000
TERM	36 months	36 months
DOWNPAYMENT	none	none
MONTHLY PAYMENTS	$220	$299
TOTAL PAYMENTS	$7,920	$10,764

DATA: WORLD OMNI FINANCIAL CORP.

Carmakers have various names for their programs. At Mercedes, it's called Encore Lease, and at Jaguar, Select Edition. Sometimes such tags designate a special deal. Mercedes offers interest rates as much as 2.5 points lower on Encore leases than on others. A 48-month Encore lease for a 1990 300SEL runs about $545 a month with no downpayment, $50 less than a non-Encore lease, says Garth Blumenthal, general manager of Fletcher Jones Motorcars in Newport Beach, Calif.

AEROSTAR WARS. For now, good lease deals are tougher to find on more mainstream wheels. Watch the ads. You could get lucky if supplies of a vehicle balloon. Last year, Ford tested a used-car leasing program with rates as much as three points below the 8% average. The result: Folks could lease a two-year-old Aerostar minivan for $260 a month over two years, vs. $325 a month to buy one over four. Leasing some Japanese models, such as a Toyota Camry, can make sense because their low depreciation rates help cut payments.

Before you sign on the dotted line, check behind the monthly payment to be sure you're getting a fair shake. Compare the car's price, or "capitalized cost" in lease-speak, with an independent source such as the National Automobile Dealers Assn.'s *Official Used Car Guide*, available at banks and many libraries. Then, find out the "residual value," or the estimated value of the car at the end of the lease you're being offered and compare that with the *Automotive Lease Guide* (813 791-4955, $12.50 an issue). If the salesperson refuses to give you that info, you're probably being overcharged. If the math adds up, though, slide behind the wheel and take your used dreamboat for a shakedown cruise. *David Woodruff*

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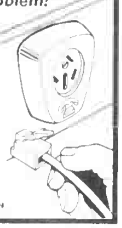

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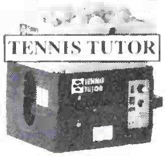

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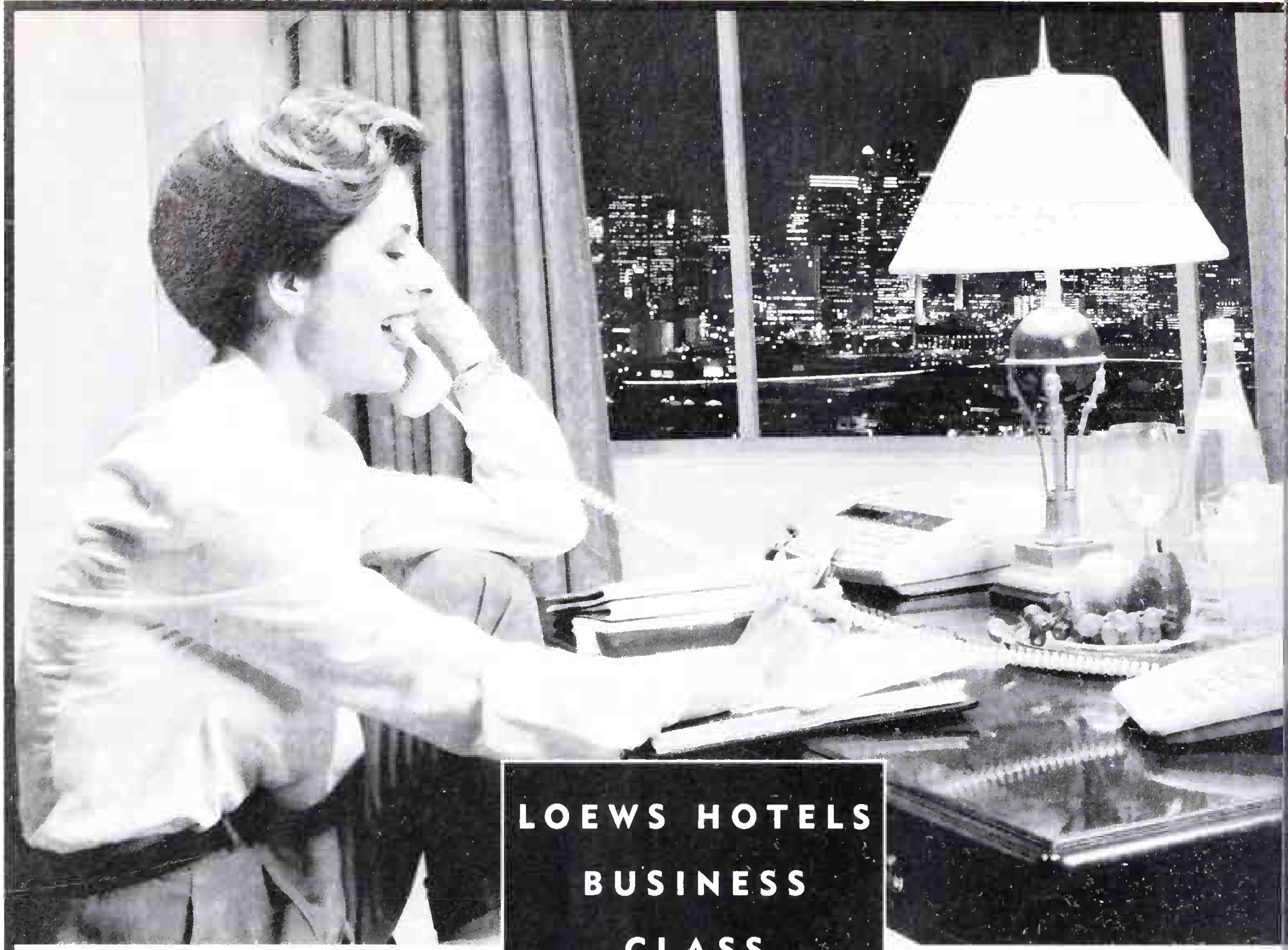

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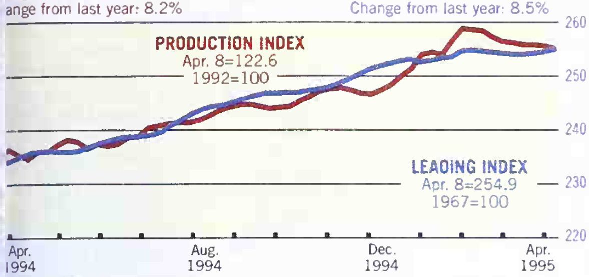
)DUCTION AND LEADING INDEXES



exes are 4-week moving averages

roduction index fell slightly during the week ended Apr. 8. Before ation of the four-week moving average, the index dropped more sharply, 1.9, from 123.1. Declines in the seasonally adjusted output of rail t, autos, and paperboard led the decline.

ading index edged higher in the latest week. The unaveraged index fell to 255.2 from 255.3. That reflected slower growth rates for materials and M2.

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DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (4/14) S&P 500	507.24	505.04	13.4
'ORATE BOND YIELD, Aaa (4/14)	8.04%	8.05%	2.2
STRIAL MATERIALS PRICES (4/14)	114.7	114.0	NA*
NESS FAILURES (4/7)	351	304	59.5
ESTATE LOANS (4/5) billions	$471.6	$470.2r	10.6
:Y SUPPLY, M2 (4/3) billions	$3,599.5	$3,606.5r	1.4
AL CLAIMS, UNEMPLOYMENT (4/1) thous.	342	338	1.8

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ss failures and real estate loans. *Historical data available from CIBCR.

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
RAL FUNDS (4/18)	5.98%	5.91%	3.59%
IERCIAL PAPER (4/18) 3-month	6.10	6.13	4.11
IFICATES OF DEPOSIT (4/19) 3-month	6.11	6.12	4.08
MORTGAGE (4/14) 30-year	8.57	8.61	8.42
STABLE MORTGAGE (4/14) one-year	6.35	6.40	5.02
E (4/19)	9.00	9.00	6.39

es: Federal Reserve, HSH Associates, Reuters Holdings PLC

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/15) thous. of net tons	1,970	1,995#	3.2
AUTOS (4/15) units	111,450	132,725r#	-23.2
TRUCKS (4/15) units	93,755	118,109r#	-23.7
ELECTRIC POWER (4/15) millions of kilowatt-hrs.	54,301	54,197#	1.9
CRUDE-OIL REFINING (4/15) thous. of bbl./day	13,615	13,512#	1.0
COAL (4/8) thous. of net tons	19,673#	20,953	-3.4
PAPERBOARD (4/8) thous. of tons	894.0#	931.7r	4.5
PAPER (4/8) thous. of tons	848.0#	860.0r	5.9
LUMBER (4/8) millions of ft.	425.4#	436.4	–8.4
RAIL FREIGHT (4/8) billions of ton-miles	23.6#	24.4	5.8

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/19) $/troy oz.	395.550	390.050	5.4
STEEL SCRAP (4/18) #1 heavy, $/ton	137.50	137.50	0.0
COPPER (4/15) ¢/lb.	141.5	143.3	56.0
ALUMINUM (4/15) ¢/lb.	90.0	91.8	43.8
COTTON (4/15) strict low middling 1-1/16 in., ¢/lb.	106.76	99.59	40.8
OIL (4/18) $/bbl.	20.10	19.84	19.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/19)	81.23	83.88	103.77
GERMAN MARK (4/19)	1.36	1.40	1.69
BRITISH POUND (4/19)	1.62	1.59	1.49
FRENCH FRANC (4/19)	4.82	4.89	5.80
ITALIAN LIRA (4/19)	1713.1	1723.8	1620.0
CANADIAN DOLLAR (4/19)	1.37	1.38	1.38
MEXICAN PESO (4/19)[3]	6.165	6.175	3.366

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ıent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

DYMENT COSTS

ay, Apr. 25, 8:30 a.m. ▶ Labor costs rkers in private industry probably sed by 0.7% in the first quarter, the small gain as in the fourth quarter of If so, the cost of total wages and ts would have risen just 2.9% in the nded in the first quarter, the slowest in compensation in almost eight Increases in both wages and benefits wing.

UMER CONFIDENCE

ay, Apr. 25, 10 a.m. ▶ The Confer-3oard's index of consumer confidence slipped to 100 in April, from a read-101 in March. That's the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. Consumers have become increasingly worried about the economy's performance six months down the road. The expectations index has fallen for three consecutive months. The assessment of present business conditions has continued to rise, bolstered by healthy job markets.

GROSS DOMESTIC PRODUCT

Friday, Apr. 28, 8:30 a.m. ▶ The MMS median forecast projects that the real gross domestic product grew at a 2.7% annual rate in the first quarter. That's about half of the 5.1% pace in the fourth quarter. Consumer spending and residential construction slowed, but inventory accumulation continued to barrel along. A big wild card will be foreign trade, which could subtract substantially from real GDP growth. Inflation last quarter, as measured by the GDP price deflator, probably rose 2.7% at an annual rate, not much different from the fourth quarter.

DURABLE GOODS ORDERS

Friday, Apr. 28, 8:30 a.m. ▶ New orders taken by durable goods manufacturers probably dropped by 0.5% in March, after falling 0.8% in February. That would be the first back-to-back decline in the data in two years. Weakening demand for consumer durable goods is dampening overall factory orders.

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Sunday

Investing in the world of a weaker dollar and stronger yen: Steven H. Nagourney, chief global strategist of Lehman Brothers Inc., and BW Senior Writer William Glasgall, who specializes in covering the international money markets, will offer their prescriptions—and answer your questions. **Apr. 23 9 p.m. EDT in the Globe**

Wednesday

Reengineering guru Michael Hammer is back, as co-author of *The Reengineering Revolution*, due in bookstores Apr. 28. In another of BW Online's Interview With the Author series, he will discuss the new book with BW Senior Writer John Byrne—and you. **Apr. 26 8 p.m. EDT in the Coliseum**

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Index to Companies

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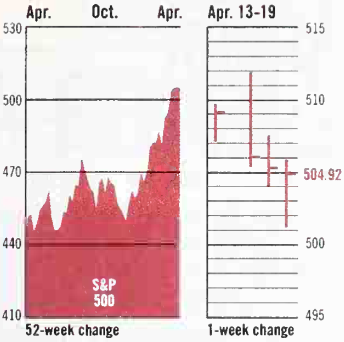
vestment Figures of the Week

ENTARY

f strong earnings reports reverse the Dow's losses rly in the week, and the arket closed on an up note. n Kodak made a big splash, 4⅜ after reporting an 81%)perating profits. Friction de with Japan initially ed the dollar, but the green- bounded against the mark after a government report a narrowing of the trade vith Japan. The still-weak ed inflation fears, and the nd's yield rose to 7.36%.

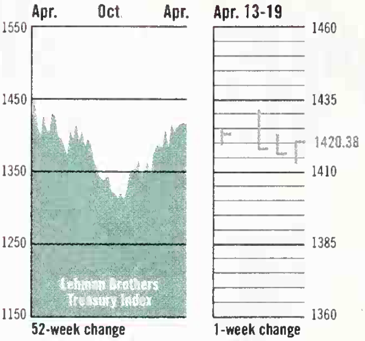
STOCKS



52-week change
+14.2%

1-week change
–0.4%

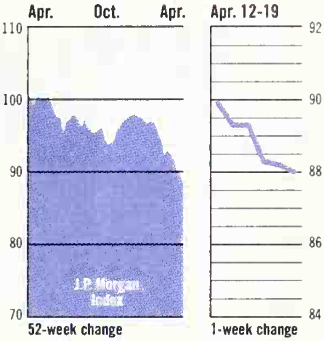
BONDS



52-week change
0.0%

1-week change
0.0%

THE DOLLAR



52-week change
–12.8%

1-week change
–2.1%

KET ANALYSIS

'OCKS	Latest	% change Week	 52-week
NES INDUSTRIALS	4207.5	0.2	16.9
COMPANIES (S&P MidCap Index)	181.6	–1.6	9.1
COMPANIES (Russell 2000)	260.6	–0.9	7.6
IPANIES (Russell 3000)	286.8	–0.8	12.5

'N STOCKS	Latest	% change (local currency) Week	 52-week
(FINANCIAL TIMES 100)	3170.1	–1.2	2.3
NIKKEI INDEX)	16,376.1	0.2	–17.6
0 (TSE COMPOSITE)	4283.3	–0.3	4.3

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.75%	5.78%	3.83%
30-YEAR TREASURY BOND YIELD	7.36%	7.36%	7.32%
S&P 500 DIVIDEND YIELD	2.55%	2.60%	2.94%
S&P 500 PRICE/EARNINGS RATIO	16.7	16.6	19.9

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	469.6	468.5	Positive
Stocks above 200-day moving average	61.0%	61.0%	Neutral
Speculative sentiment: Put/call ratio	0.67	0.73 r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.14	1.10	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

ONTH LEADERS	% change 1-month	 12-month	Strongest stock in group	% change 1-month	 12-month	Price
NSE ELECTRONICS	15.2	26.2	E-SYSTEMS	43.4	49.7	63⅝
NGS AND LOANS	14.6	17.0	GOLDEN WEST FINANCIAL	16.6	11.4	44
INUM	10.7	29.1	ALCOA	14.3	26.9	43
HINE TOOLS	9.7	–7.2	CINCINNATI MILACRON	20.0	17.2	25½
RSIFIED MACHINERY	9.7	3.6	CLARK EQUIPMENT	68.3	35.9	85⅝

ONTH LAGGARDS	% change 1-month	 12-month	Weakest stock in group	% change 1-month	 12-month	Price
DCASTING	–8.9	6.1	TELE-COMMUNICATIONS	–15.9	–6.9	18½
S	–7.6	–6.9	U.S. HEALTHCARE	–8.9	–15.4	39¾
SEWARES	–5.0	24.3	RUBBERMAID	–12.9	18.6	29½
KING	–4.6	–19.6	ROADWAY SERVICES	–11.2	–30.7	45¾
ER CONTAINERS	–4.4	15.4	TEMPLE-INLAND	–7.8	–13.5	41½

UAL FUNDS

MORNINGSTAR INC.

RS

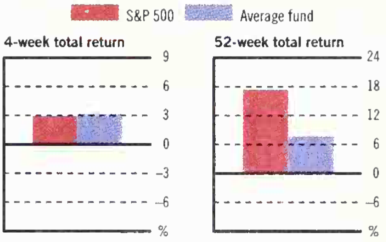
ek total return	%
HT EQUIFUND-MEXICO NATL. FID. EQTY.	19.1
CANADA A	10.9
TONE NEW ZEALAND	10.6

k total return	%
GMAN COMMUNICATIONS & INFORM. A	60.6
LITY SELECT HEALTH CARE	49.0
ANCE TECHNOLOGY A	45.8

LAGGARDS

Four-week total return	%
AMERICAN HERITAGE	–6.4
STEADMAN AMERICAN INDUSTRY	–4.3
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–4.1

52-week total return	%
MONITREND GOLD	–41.2
HERCULES LATIN AMERICAN VALUE	–36.1
TCW/DW LATIN AMERICAN GROWTH	–35.7



ATIVE PORTFOLIOS

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amounts represent the value of $10,000 d one year ago portfolio

tages indicate y total returns

U.S. stocks	Foreign stocks	Treasury bonds	Gold	Money market fund
$11,672	$11,110	$10,702	$10,529	$10,517
–0.32%	+1.85%	–0.18%	–0.06%	+0.32%

on this page are as of market close Wednesday, Apr. 19, 1995, unless otherwise in- Industry groups include S&P 500 companies only; performance and share prices are as of market close Apr. 18. Mutual fund returns are as of Apr. 14. Relative portfolios are valued as of Apr. 18. A more detailed explanation of this page is available on request. r=revised

A GREEDY GRAB FOR CHRYSLER

Say what you will about the corporate raiders of the '80s, they scared the daylights out of complacent chief executives. In their drive for a quick buck, the greenmailers, the leveraged buyout crowd, and the takeover artists forced companies to shake off years of bureaucratic lethargy, cut expensive layers of management, and dispose of marginal operations. Although they wildly overpaid for some assets (witness RJR Nabisco) and even trashed a few companies (witness Revco and Fruehauf), the raiders collectively constituted a market force for positive change. The current surge in productivity results in large part from their short-term, shareholder-driven behavior. So you might think Kirk Kerkorian's $55-a-share bid for Chrysler Corp. is in the finest tradition of doing well by doing good.

Not this time. Chrysler in 1995 is already the most efficient of the Big Three. It makes $2,100 operating profit on each car produced, compared to $877 for Ford Motor Co. and $734 for General Motors Corp. It has one of the fastest product-development cycles in the world. Its cab-forward design is pathbreaking. Its Neon is the first American small car to impress the Japanese. Its minivans lead a market it practically invented. Its Jeeps revitalized the entire sport-utility market. Sure, the company has a serious quality problem that is hurting sales. But Chrysler recognizes the problem and is moving quickly to remedy it.

In short, Chrysler has done virtually everything right in rebuilding itself. That is precisely why it has $7.3 billion in cash—money Kerkorian, as a 10% minority shareholder, says is his. Hard as we try to think of changes Kerkorian ar sidekick, Lee A. Iacocca, might make to improve the p ability of Chrysler, we come up empty. His bid is sim quick grab for the fruits of success from an efficient, co itive company, not a move to squeeze ready cash out bloated corporate behemoth.

The Council of Institutional Investors agrees. In the this trade group of big pension funds, led by the Calif State Teachers Retirement System, was in the forefro banging heads in boardrooms to dump recalcitrant CEOs downsize corporations. This time around the pension fund lining up behind Chrysler Chairman Robert J. Eaton. argue that Kerkorian's unfinanced bid will, if successful rifice Chrysler's long-term viability for short-term gain

We totally agree. Seven billion dollars is a lot of mone Chrysler has a lot to do. It must spend heavily today t prove quality. It must be able to invest in product dev ment during the next recession. That takes capital, lots

The great danger in the $20.5 billion Kerkorian bid is it can trigger a speculative financial froth that does s damage to the real economy. Many other competitive c nies in cyclical industries are sitting on piles of cash right Nearly all of them made that money the hard way, by ing productivity, not prices. Revving up already overh bank lending and reversing the healthy tide of cutting can only hurt the economy. The '90s are simply not the Corporate America does not need the lash of the "gre good" guys. This time around, greed is just greed.

LOCAL GOVERNMENT'S DECEPTIVE CHARM

Nothing is more central to the current effort to reform government than the concept of devolution. Devolving federal functions down to the state and local level has great appeal. Any suburbanite who has voted on a school district budget knows the impact of linking the level of taxes to the quality of government services. The charm of devolution is that it promises to localize practically all government services and give people the chance to directly fund them—or not.

The only problem with this romantic notion of power to the people is that we also know how awful local government can be. The only thing worse than the U.S. Postal Service is the local motor vehicles department. Here are some facts: From 1970 to 1992, the number of civilian federal employees grew not one bit and even fell sharply as a percentage of the population. The number of state employees, however, soared from 2.8 million to 4.6 million, and the number of local public workers jumped to 11.1 million. That's a grand total of 15.7 million. Today, one out of eight people working in this country works for the government, the vast majority at the state and local level.

In themselves, these numbers show there is no effic magic in devolution. In fact, state and local governm have often proved to be more easily seduced by special te ests than the federal government. State government notoriously open to persuasion. Look at the savings and crisis. States deregulated S&Ls, and when the smoke cle state-chartered S&Ls were responsible for most of the lost. S&L officials were well known around state capita their campaign contributions to legislators. We know the eral regulators were asleep. State regulators were com

The sad truth is that local government is often the government. There are too many overlapping jurisdi with taxing power. In one locality in New York's N County, people pay taxes to 17 government agencies.

The good news is that a few municipalities are char New York City, believe it or not, can get a person in an of one of its satellite motor vehicle offices in 15 mi Devolution makes sense because it brings government to the people. But until state and local governments rei themselves, let's not confuse devolution with efficiency.

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Here

You wouldn't think being airborne would be a celebratory kind of thing for Ray. Not after spending a few tough seconds descending through the air between his roof and the ground.

is Ray Harrison,

It hurt plenty, not to mention scaring the daylights out of his wife, Nada. And of course, it was expensive putting Ray back together again.

celebrating.

But he's left it way behind. All of it, bills included. Nada has AFLAC coverage through her job. It kicked in on unexpected expenses (like hauling Ray over the peninsula by helicopter). In plain language, AFLAC helped stop the money from flowing out of their pockets through holes in their health coverage. In the end, Ray has made a painless landing.

Here, you see Ray as he is today. Healthy, happy, and over it. Hallelujah!

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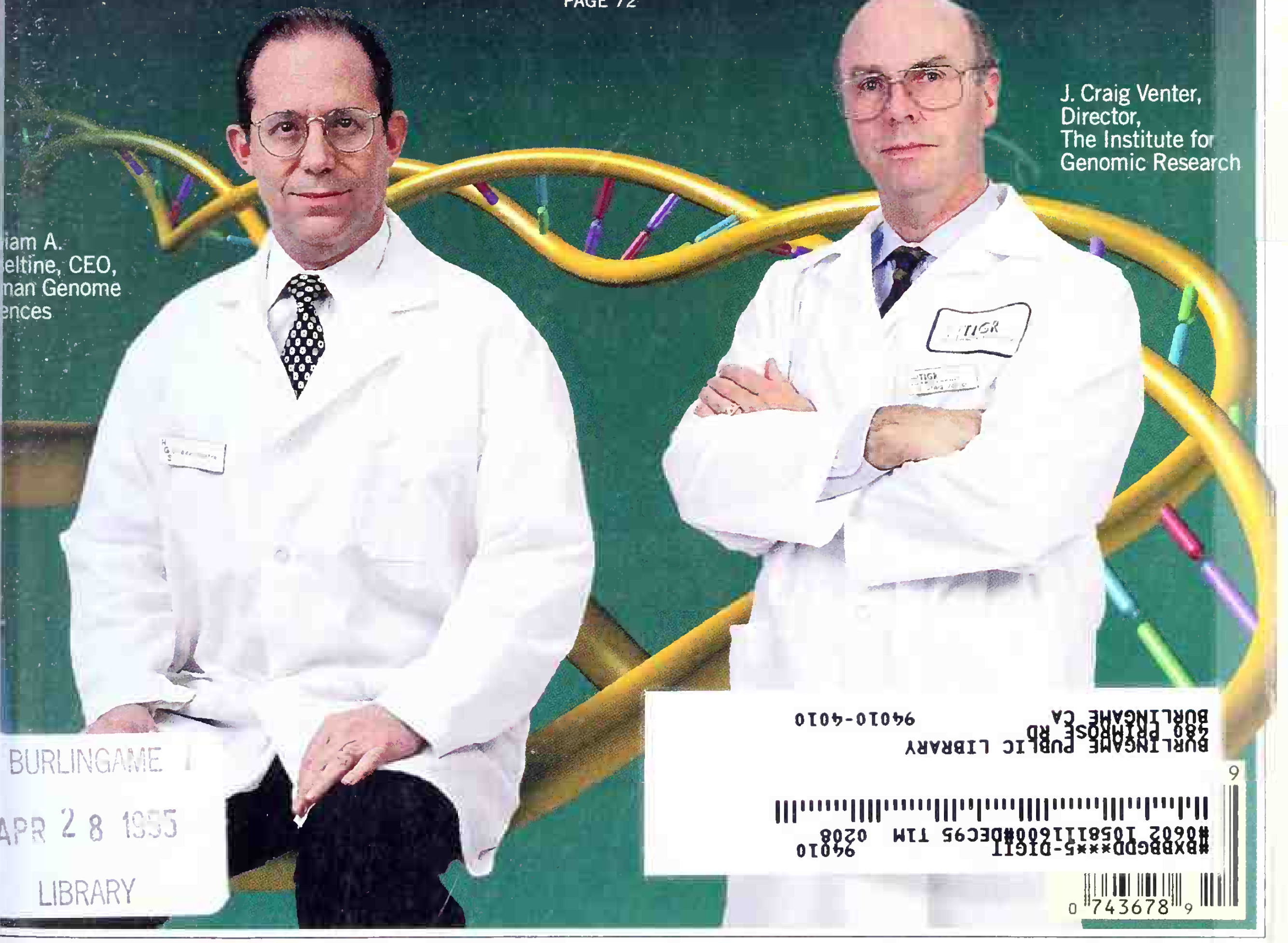
THE GENE KINGS

wo men have laid claim to a potential gold mine of genetic codes. Will they be able to cash in?

PAGE 72



J. Craig Venter, Director, The Institute for Genomic Research

iam A. eltine, CEO, man Genome ences

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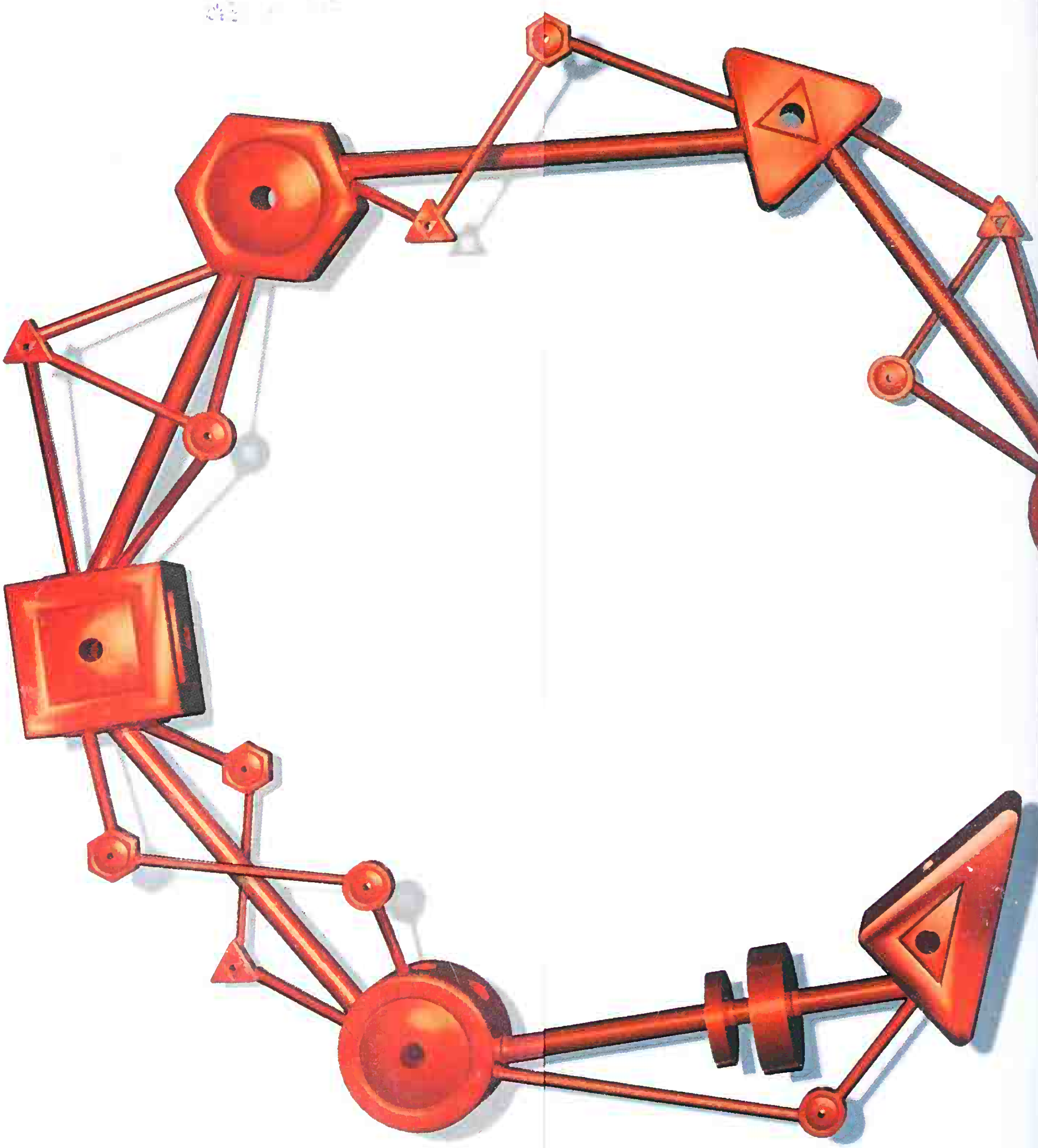
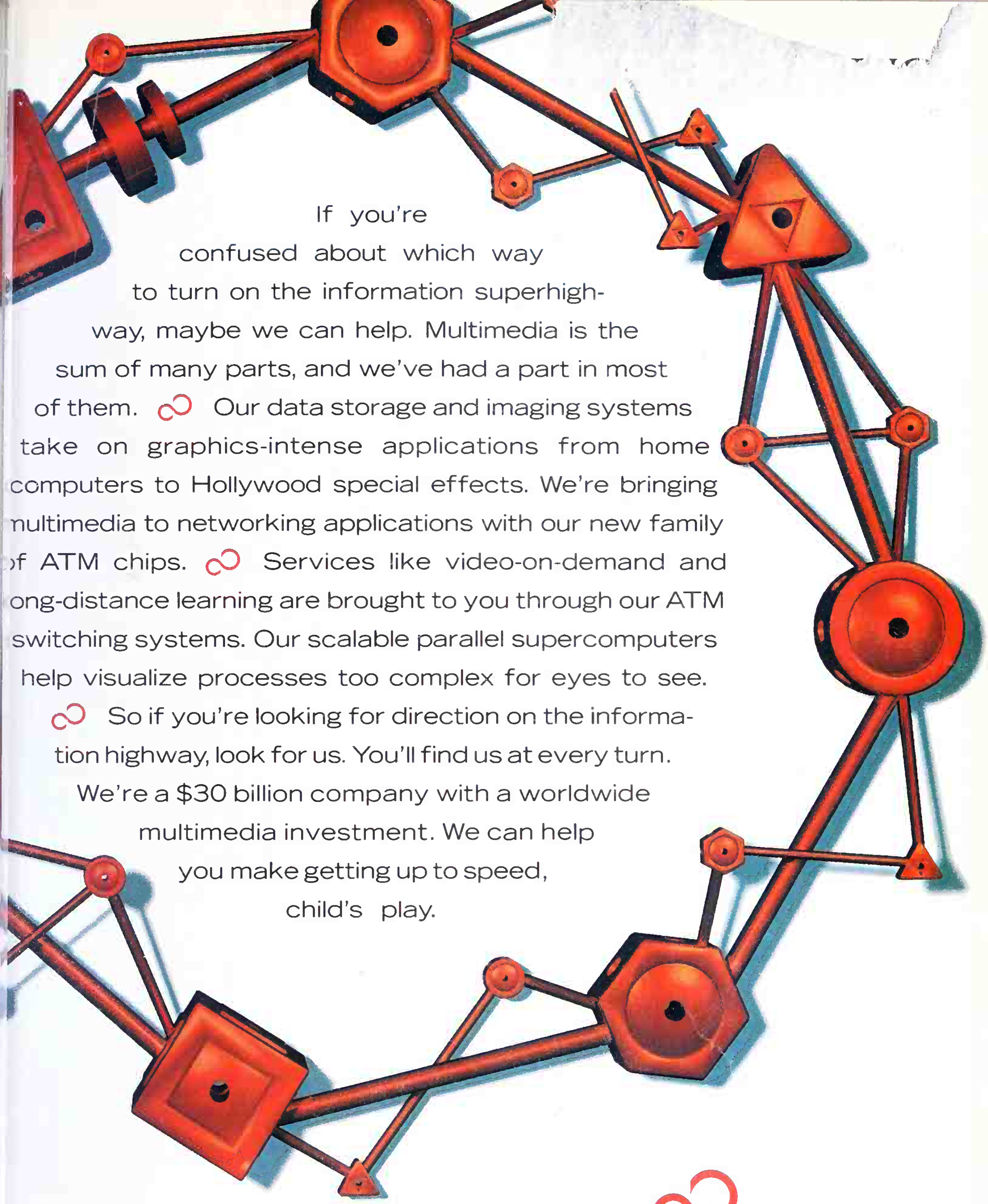
CHILD'S PLAY.





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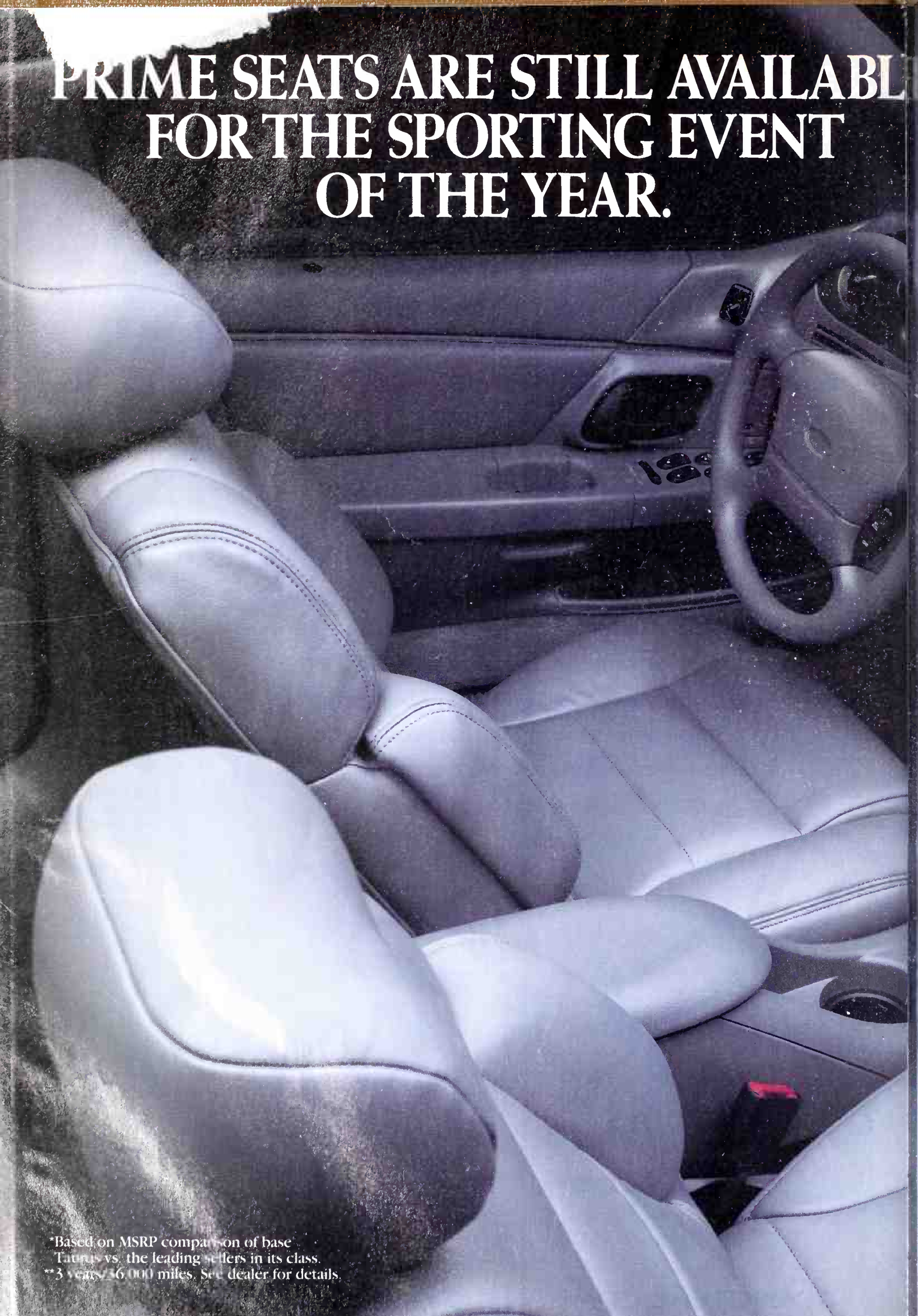

PRIME SEATS ARE STILL AVAILABL FOR THE SPORTING EVENT OF THE YEAR.

*Based on MSRP comparison of base Taurus vs. the leading sellers in its class.
**3 years/36,000 miles. See dealer for details.

INTRODUCING THE NEW FORD TAURUS SE

It's the Taurus with a decidedly sporty edge. Taurus SE's cast aluminum wheels, new clear lens headlamps and available spoiler make a serious statement of style. Inside, the SE has a long list of driver-friendly touches. Even air conditioning comes standard. And, of course, Taurus SE also gives you the added safety of standard dual air bags to supplement safety belts for the front passenger as well as the driver, and available anti-lock brakes.

But the SE's news doesn't end there. There's a refined powertrain that delivers an especially smooth performance from the computer-controlled V-6 engine. And when it comes to value, Taurus performs equally as well, as a better value than its leading competition.*

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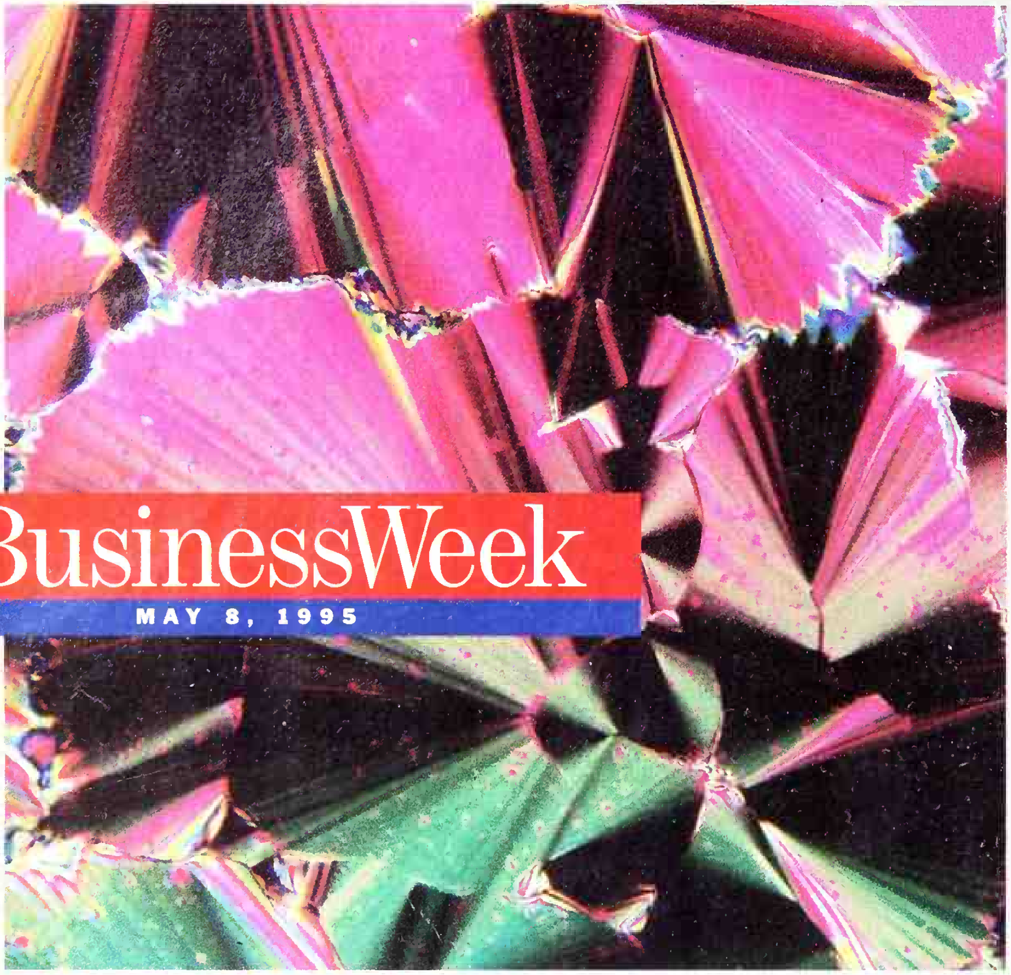

BusinessWeek
MAY 8, 1995

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THE GENE KI

Two scientists, C
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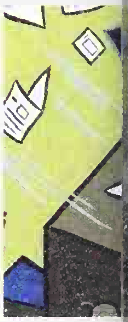

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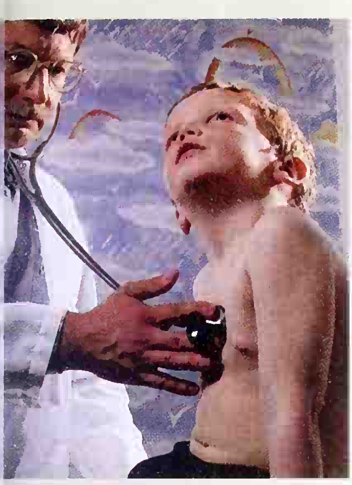
PHOTOGRAPH ABOVE BY MICHAEL W. [illegible] INSTITUTE OF MOLECULAR BIOPHYSICS, FLORIDA STATE UNIVERSITY



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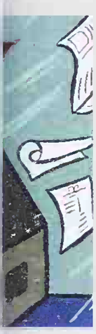

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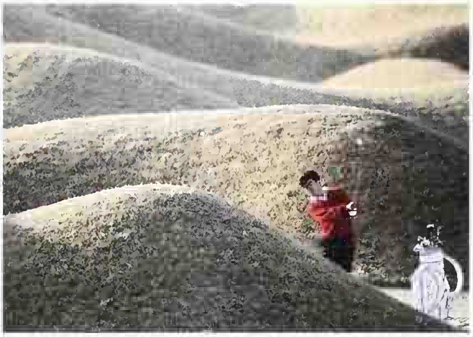
The brash media of the right are challenging the elite of the news Establishment page 90

HIGH TECH'S LEGAL ELITE

Wilson Sonsini's clients are a who's who of Silicon Valley—and that's a problem page 65



JAPAN'S NEW GAME

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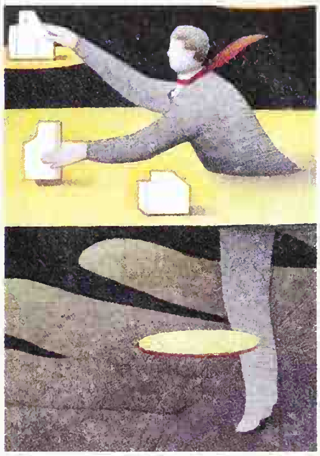

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

WHEELER-DEALERS

NEW THAMES TEAM: REICHMANN AND TISCH?

REICHMANN: *He wants the Wharf*

PAUL REICHMANN IS ANGLING to get back into the beloved London office complex he lost to lenders in 1992—maybe with the financial help of CBS Chairman Laurence Tisch, well-placed real estate people tell BUSINESS WEEK. The Toronto property investor showed Tisch around the massive Canary Wharf project in mid-April.

Reichmann needs a deep-pockets partner to bankroll him. He tried a similar approach in Mexico, where he enlisted George Soros, but property deals there took a dive. Now, Tisch, long rumored to be peddling his controlling stake in CBS, may be seeking fresh opportunities.

The investment might make sense. Reason: London's battered office market is recovering, and currently profitable Canary Wharf's occupancy has almost doubled since 1992—it's 75% and climbing. Property experts speculate that Reichmann may want two undeveloped lots. Canary Wharf's banks will not confirm whether he has made an offer. Tisch won't comment, and Reichmann didn't respond to calls. Sir Peter Levene, who heads Canary Wharf, cautions "not to read too much" into the Reichmann-Tisch inspection visit. *Paula Dwyer*

WAL-MART: *Admonished to listen up*

PROXY WARS

IGNORING INVESTORS COURTS TROUBLE

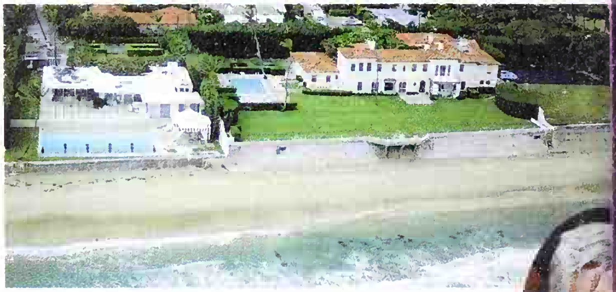
WAL-MART HAS BEEN ZAPPED for snubbing an investors' proxy resolution. The Second Circuit Court of Appeals is making the giant retailer pay nearly $55,000 in legal costs spent by institutional investors who failed to get the resolution included in the 1992 proxy. Several organizations—including a union and three religious groups—wanted Wal-Mart to report on its affirmative-action and other equal-employment policies.

Now, $55,000 isn't much for a company with billions in annual sales. The plaintiffs are satisfied they made their point. Says their lawyer, Cornish Hitchcock: "The cost of ignoring shareholders just went up."

Other retailers, such as J. C. Penney, honored the investors' request and even urged a yes vote. It passed, and Penney issued an employment-practices report. Wal-Mart, which deemed the issue an internal matter, included the resolution in 1993 and 1994—after the investors sued. (The proposal lost.) Wal-Mart says the chain already has answered many of the plaintiffs' questions in a report to its shareholders. *Linda Himelstein*

TALK SHOW "We never intended, and still don't intend, this transaction to be hostile. You turned it into a hostile transaction."

—Kirk Kerkorian, in a letter to Chrysler Chairman Robert Eato after the carmaker's board rejected his $20.5 billion takeover bid



SOLD: *Ted and the clan's Palm Beach retreat*

UNREAL ESTATE

THE KENNEDYS GIVE UP A BEACHHEAD

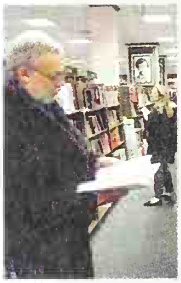
THE KENNEDYS HAVE FINALLY unloaded their Palm Beach estate, a rundown old place that languished on the market for a year and a half. The buyer is financier John Castle, former CEO of Donaldson, Lufkin & Jenrette. Castle says he will spend a full year renovating the 73-year-old beachfront mansion.

Part of the problem in selling the estate: The Kennedys were asking almost double the going rate for a comparable property, apparently because of its Camelot aura. Castle is evidently paying less than the asking price, but the final number is undisclosed. Castle, head of the New York buyout firm Castle Harlan, says he negotiated for months with family retain Senator Edward Kennedy Mass.), the current patria wasn't involved in the tal

One last deal-break snag was cleared away A 19 when the town backed its plan to dub the hom historic landmark—wh would have severely hinde any overhauls. Facing lit tion from the Kennedys, town settled for Cast agreement merely to k the house intact. Today, historic value is a tarnis coin. It's best known where William Kenn Smith was accused of rap 1991 (later acquitted), no JFK's glamorous winter W House. *Peter Valdes-Dap*

THE LIST BIBLIOPHILIA

Where are the best places to open a bookstore? In major metro areas, it's San Jose, Calif. Those Silicon Valley types read books as well as computer screens. New York, the nation's literary capital, and Boston, with its intellectual ambience, are No. 2 and No. 3. If you're looking for the highest-volume business, go to a small university town. Seven such places do a bigger pe bookstore business than Sa Jose. The leader is Bryan-College Station (home to Texas A&M), with sales of $2.1 million per store. So forget the dumb-Aggie joke

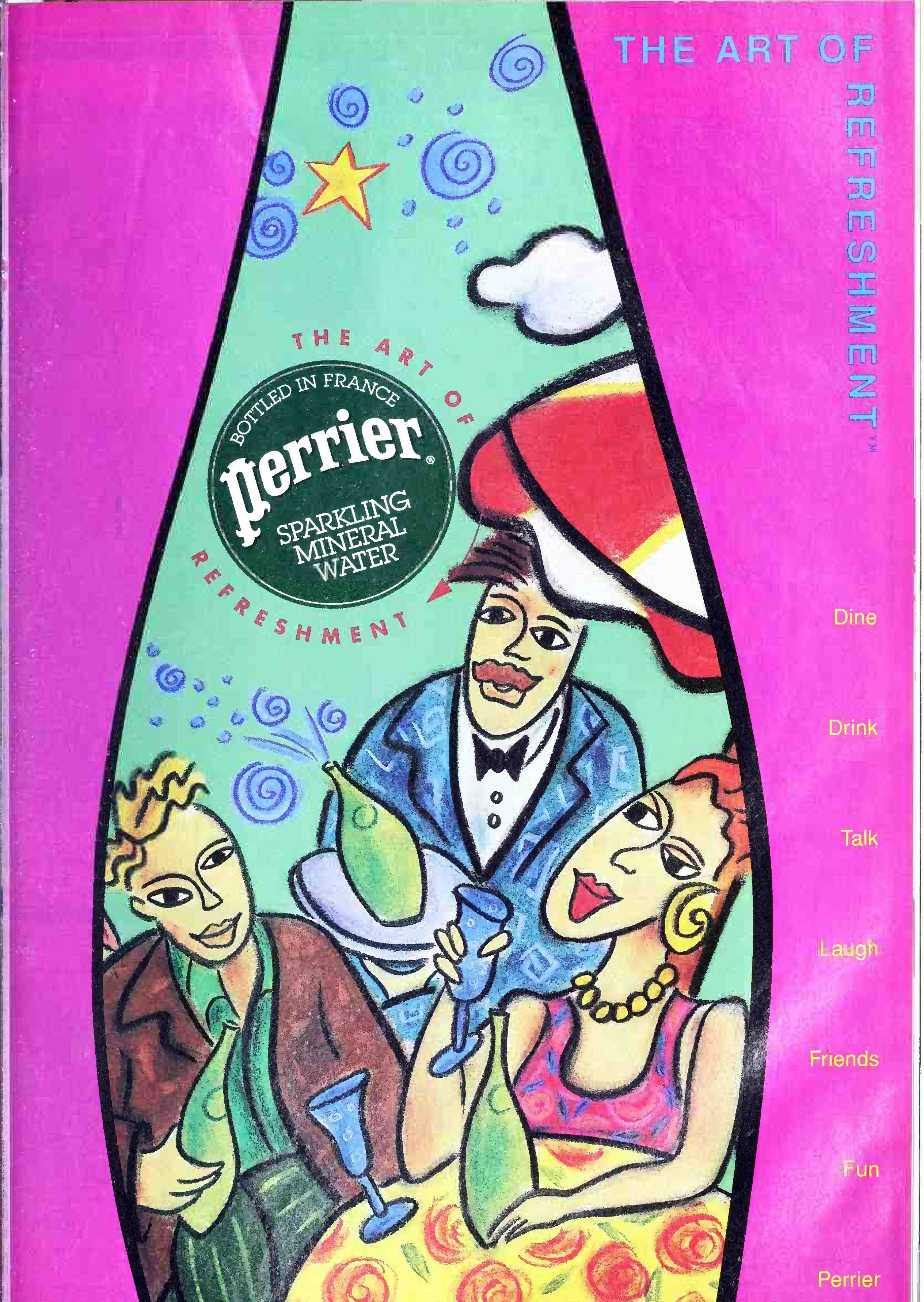

RESTING THE PC

TOP METROPOLITAN BOOK MARKETS

Sales per bookstore, 1993

	IN MILLIO
1 SAN JOSE	$1.
2 NEW YORK	0.
3 BOSTON	0.
4 LOS ANGELES	0.
5 SAN FRANCISCO	0.

DATA: AMERICAN BOOKSELLERS ASSN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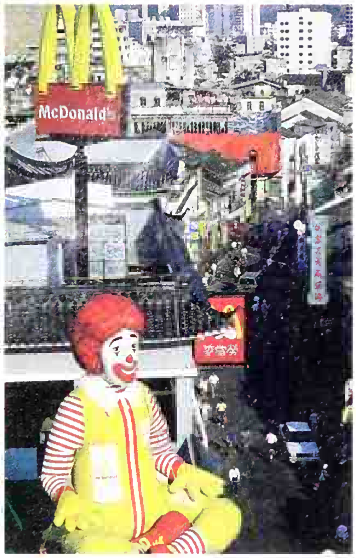


RONALD: *Most sales are abroad*

YANKEE TRADERS

ALL THE WORLD'S A McSTAGE

NOTHING IS MORE AMERICAN than McDonald's, right? Well, think again. Last year, recently released financial reports show, the chain's operating revenues from foreign sales passed 50% of the total. Analysts' prediction for decade's end: 60%.

Mickey D's gets more sales from overseas than any other U.S. fast-food chain, though Pizza Hut and KFC have also pushed abroad. The Golden Arches can be found in 79 nations. Having all but saturated America, the company is opening two foreign stores for every new U.S. outlet. After all, the appeal of this bite of American culture is strong: When McDonald's opened in Kuwait City last year, the line of cars at its drive-through window stretched seven miles.

While standardization built the company, McDonald's has wisely taken a flexible approach abroad. In places where local markets are tough for Americans to read, it works with joint-venture partners (the Far East) or licenses its name without putting up equity capital (the Mideast). While the menus look mostly the same all over, the company bows to local customs. Outlets set to open in India next year will likely sell veggie burgers instead of beef. Even in the hamburger biz, some cows are sacred. *Greg Burns*

WILD BLUE YONDER

A CASH CARGO FOR DELTA PILOTS?

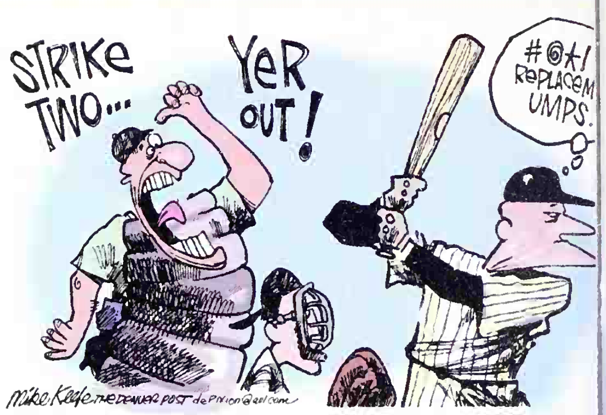
PLAN: *Jobs for fliers*

BATTERED BY layoffs, Delta's pilots have devised a plan to restore jobs by expanding the ailing carrier's small (6% of revenue) air-freight business. Although of late no love has been lost between the pilots and Delta Air Lines, Delta's recent actions indicate that such an expansion might fly.

The Air Line Pilots Assn. proposes that Delta take seven L-1011 jets planned for phaseout, convert them into cargo jets, and fly between Anchorage and Pacific Rim cities—creating jobs for 200 pilots. Many could be drawn from the 505 pilots furloughed by Delta. The airline, which promises no more layoffs, is in tense talks with ALPA over management plans to cut costs $340 million more.

Delta says it will study the union's freight proposal. However, CEO Ronald Allen recently said he intends to get more heavily into cargo—leaving details unclear. The pilots are ready when you are, Ron. *David Greising*

DRAWN & QUARTERED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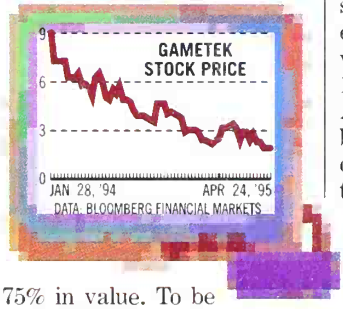
IPO TURKEY OF THE MONTH

NONVIOLENT VIDEO GETS MUGGED



DATA: BLOOMBERG FINANCIAL MARKETS

YOU GOTTA HAVE GORE. THAT'S the lesson video-game maker GameTek—and its shareholders—have learned. Since GameTek went public in January, 1994, at 9, it has lost 75% in value. To be a Wall Street hit, you need a hit title. GameTek wanted to avoid the gruesome fare popular with kids. So it focused on spin-offs from shows such as *Jeopardy* and *Wheel of Fortune*. Wrong.

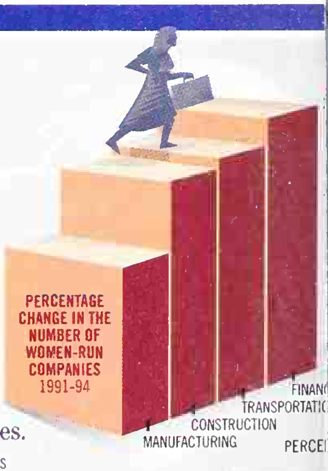
Since the offering, quarters were in the red cluding the vital Christ period (loss per share: During the profitable q ters, the price continue swoon anyway. The analy earnings consensus: Game will return to the black 10¢) in the quarter end Apr. 31. But that ha buoyed the stock either. other snag: The entire in try is suffering a sales sl down, awaiting spee hardware due out this f

Still, GameTek say strategy shift will t things around. Yes, it more grisly titles (*Brutal Quarantine*). It's also laun ing lots of games—two month—in hopes of fin getting a hit and staunch investors' bleeding.

THE BIG PICTURE

WHERE WOMEN ARE MAKING GREAT STRIDES

Women still own only a small share of U.S. businesses. But since 1991, the number of female-controlled businesses has soared 9.1%, besting the overall U.S. rate of 8.6%. The fastest-growing areas for women are in traditionally male industries.



DATA: NATIONAL FOUNDATION FOR WOMEN BUSINESS OWNERS, DUN & BRADSTREET INFORMATION SERVICES

*INCLUDES REAL ESTA

FOOTNOTES Coffee futures prices, per pound: Jan. 17, 1994: 72¢; July 12, 1994 (peak): $2.45; Apr. 24, 1995: $1.75

(CLOCKWISE FROM UPPER LEFT) MARY BETH CAMP/MATRIX, MIKE KEEFE/THE DENVER POST, LISA KNOUSE BRAIMAN/BW, RAY VELLA/BW, RUSSELL MUNSON/THE STOCK MARKET

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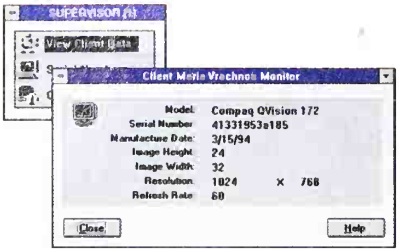

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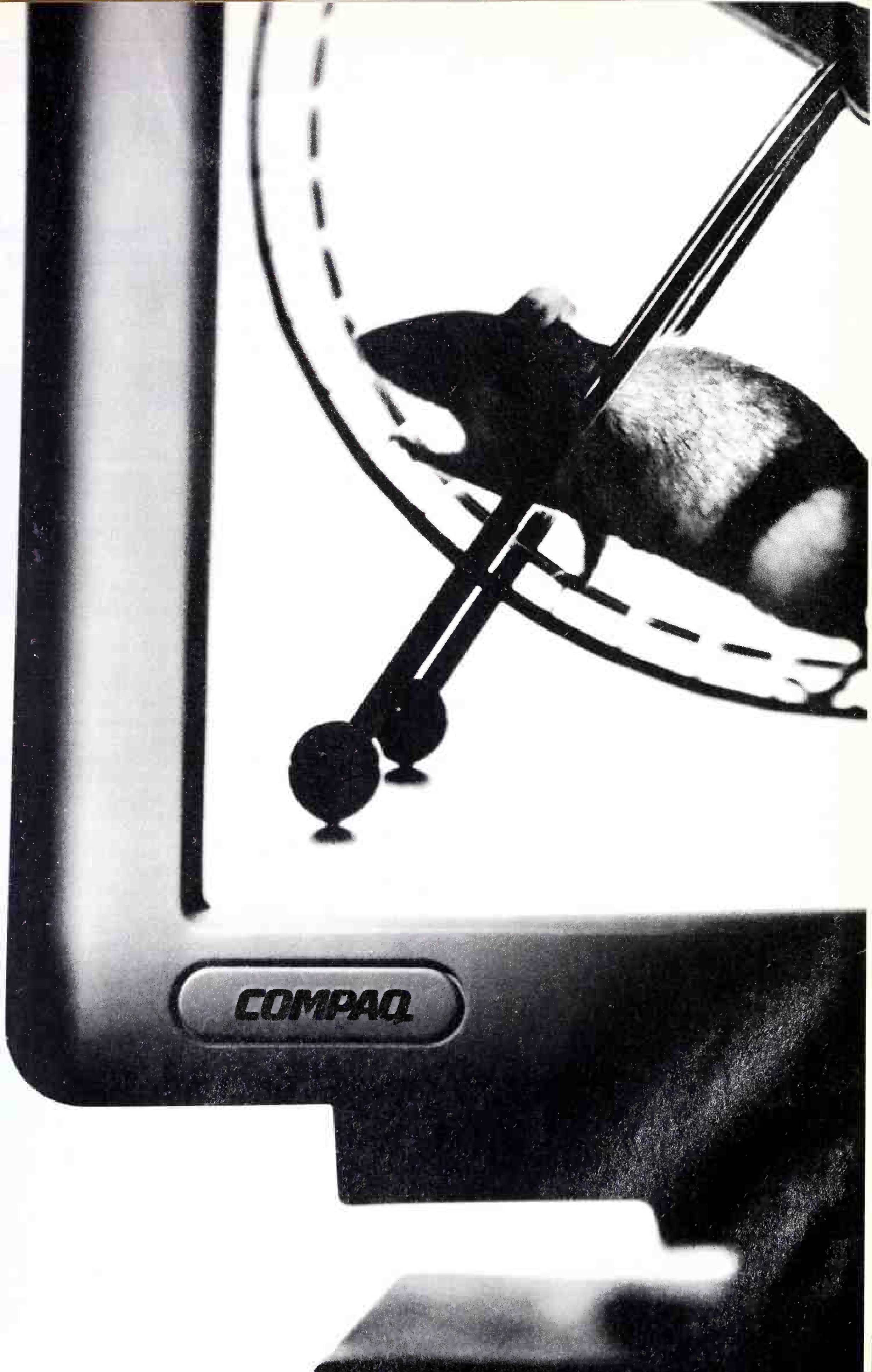
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Readers Report

THE VALUE OF IMMIGRANTS

In reviewing Peter Brimelow's book *Alien Nation*, Christopher Farrell must have had blinders on. He refuses to see what is happening to this country through its ultraliberal immigration policies ("Take back your tired, your poor," Books, Apr. 17).

To continually refer to previous immigration from Europe as the reason we should not try to control this flood of Third World immigrants is ludicrous. When immigration was at its peak in the early 1900s, there was no welfare, and those coming here wanted to become English-speaking American citizens and part of our culture. This is not the case today. Mr. Farrell should not make light of this critically important problem.

C. W. Johns
San Jose, Calif.

Brimelow must have been living in seclusion since he migrated from Britain. If he had mingled with nonwhites, he would have found out that most recent immigrants are family-oriented, hard-working, and respectful of people around them. Many bring their life savings to America.

My wife and I strive to keep our children in a private school even though it's a financial burden. Why? Because quality of education and seeking to encourage good values for our children are foremost in our minds.

I hope Brimelow realizes how much harder it is for us to prove ourselves than it is for a person of his color and communication skills.

S. Vergel de Dios
La Mirada, Calif.

America does not need fewer immigrants; it needs to continue as the nation of asylum for those fleeing persecution and for those merely seeking a better life.

Every American family has at one time had the status of immigrant or refugee and probably was just as feared and loathed by a segment of the population that shared Brimelow's opini
Such fears are wrong and unproduct
to growth.

Donald B. Boyd
Chic

EXPANDING THE WORLD OF SMALL BUSINESS

Your article, "It's a small (busine
world" (Special Report, Apr. 17),
interesting for not letting the fa
stand in the way of a good story. Att
uting 50.8% of this year's exports
companies with fewer than 500 empl
ees is a remarkable growth scenario

In fact, the last census figures, fr
1987, showed that small manufactur
businesses accounted for only 7.5% of
tal exports, or 12% of manufactu
goods exported by manufacturers.

Either number represents a big
ference from the DRI/McGraw-Hill e
mate of 45.5% a decade ago and ma
it unlikely that small businesses will
count for 50.8% of exports in 1995,
the story would have us believe.

Leslie St
Publisher, *The Expor*
Trade Data Reports I
New Y

Editor's note: The discrepancy betw
the census figures and DRI/McGr
Hill's estimates stems from differ
methodologies. DRI's estimates inclu
some companies with more than
employees, and the chart on page
should have indicated that.

Your story neglected to mention
important export tool that can h
small business: export trading/mana
ment companies. They act as the s
arm of small businesses and can coo
nate all the services needed to exp
successfully, such as shipping, paym
and financing. This lets small manu
turers concentrate on what they
best: producing products and servic

Brian Na
Medina, N

A 1993 study by the Small Busin
Exporters Assn. found that the U

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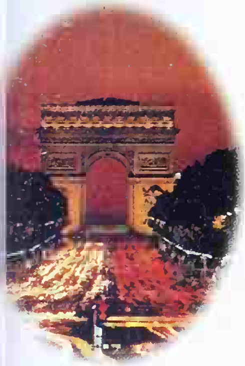

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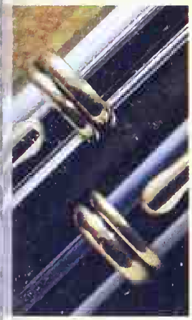

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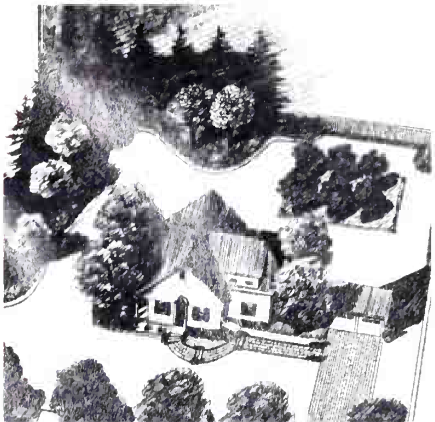

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Readers Report

CORRECTIONS & CLARIFICATION

Because of a production error, most re ers did not receive the full text of "Ca the Supernet" (Science & Technolo May 1). The complete version of the s can be found in this issue, on page 9

For "The faded colors of Benetton" (Corporation, Apr. 10), BUSINESS WEEK sh have sought a response from the Bene family about assertions in the story t the family is riven with conflicts over st egy. The company says that such cla are untrue and that the four founding lings have a unified vision. Also, Be ton's operating margins averaged 14. from 1991 to 1993, not 14.7%.

In "PACs cross the street" (Governm Apr. 10), PAC contributions from 11 fin cial institutions went to the National publican Senatorial Committee, not to chairman of that committee, Senator fonse M. D'Amato (R-N. Y.).

---

government's level of financial sup was 2.9% of the sales value of exp Support in Germany was 5.7%, B ain 11.6%, France 23.4%, and Ja 51.4%.

Today, Congress is talking about ting even this limited effort. Citi and the Congress should be aware the advancement of exporting is ke economic survival. It is also the least pensive job creator the nation has.

E. Martin Dug
Executive Dire
Small Business Exporters A
Annandale,

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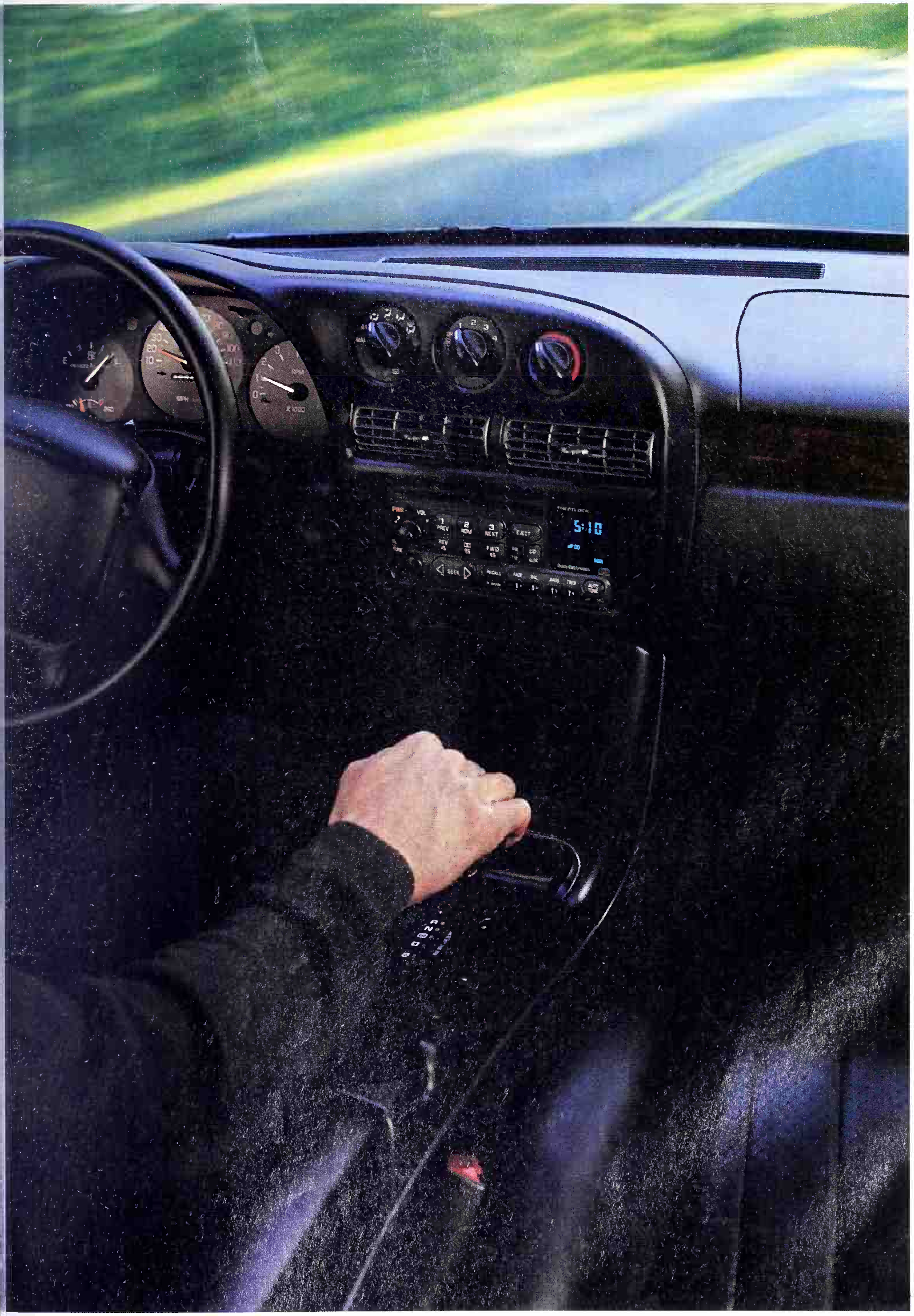


THE CONFIDENCE GAME
By Steven Solomon
Simon & Schuster • 606pp • $30

THE CENTRAL BANKS
By Marjorie Deane and Robert Pringle
Viking • 369pp • $29.95

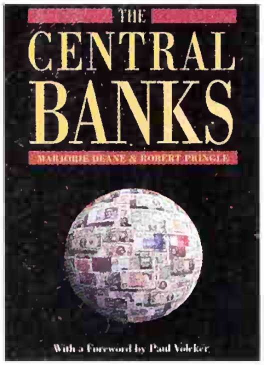
THE VANDALS' CROWN
By Gregory J. Millman
Free Press • 305pp • $23

WILL THE '90s SWAMP CENTRAL BANKERS?

For central bankers, the past year or so has been a hair-curler. First, the U.S. Treasury-bond market crashed. Months later, the Mexican economy imploded. Then the dollar, the lira, and several other currencies collapsed to record lows against the mighty Japanese yen, German mark, and Swiss franc. But that's not the half of it. A tidal wave of global borrowing and a massive deregulation of financial markets sent trillions of dollars washing in and out of economies from Argentina to Thailand to Sweden, causing currencies to gyrate wildly and making mincemeat of everyone's growth forecasts. In this crazy environment, financial volatility became so commonplace that even the collapse of Baring Securities Ltd. in a spectacular $1 billion derivatives scandal failed to slow the markets for more than a few days.

That none of this has brought the world economy to its knees is a tribute to the resilience of markets nowadays. It's also a testimonial to the powers and crisis-management skills of the world's central bankers. Unelected, often uneasy in the spotlight, and frequently reviled by politicians and public alike, these men and women are nonetheless the power behind the global economy. True, traders have the resources and skills to thwart central bankers' wishes in the short run. But over the long haul, there can be no growth without credit—and central bankers are the ones that come up with credit day after day.

The wild and woolly '90s, however, present central bankers with challenges that are many times greater than those they have faced during 50 years of fairly steady expansion. There's the roughly $20 trillion worth of high-tech derivatives on the books of global banks and corporations, for example. A warp-speed foreign exchange market is trading $1 trillion a day, much of it largely unrelated to the mundane business of financing world trade, and, in the U.S., a $2 trillion mutual-fund industry is rapidly changing the definition of banking. Finally, a financial system in one country alone—Japan—is carrying at least $1 trillion in unbooked losses, left over from the "bubble economy" of the '80s. Heaven knows what will pop up next.


THE
CENTRAL
BANKS
MARJORIE DEANE & ROBERT PRINGLE
With a Foreword by Paul Volcker

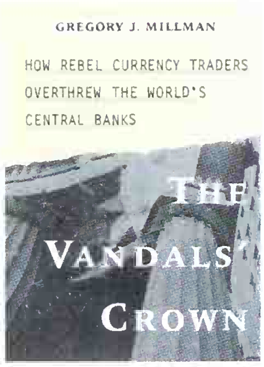
Whether central banks are up to the task of managing these burdens is the primary theme of three new volumes that approach their subject from very different angles. *The Confidence Game* explores how central bankers, through trial and error, have learned to be crisis managers. *The Central Banks* is a comprehensive treatment of the history and art of monetary control. And *The Vandals' Crown* emphasizes the role of the trader.

All three books provide straightforward accounts of the age-old battle between governments seeking to debase their currencies for quick growth and bankers fighting to maintain sound money. But *Confidence Game* stands out as the most readable of the trio. Starting with a gripping, 91-page account of the efforts by Federal Reserve Chairman Alan Greenspan and former New York Fed President E. Gerald Corrigan to contain the damage of the 1987 global stock-market crash, freelance financial writer Steven Solomon has writt page-turner that at times reads m like a thriller than a treatise on m tary affairs.

Pay close attention to Solomon's b by-blow account of Paul A. Volc daring, seat-of-the-pants experi with "practical monetarism" in 1979 stopped runaway inflation and a cr ing dollar. By resolutely targeting ey growth and sticking to his guns, as U.S. interest rates soared an economy sank, Volcker set an exa of independence that other central b ers are still trying to follow.

In keeping with the thriller m even the significance of Solomon's remains a mystery for more than pages. That's a long way to travel f answer, but the mystery is worth u eling. It seems that, down deep in hearts, central bankers have to ha bit of the classic con man within t To illustrate the point, Solomon rec the tale of how the world's money had to scramble when the 1974 coll of Frankfurt's Herstatt Bank ne sparked a panic on Wall Street threatened to shut down much of global financial system.

Dumbfounded, the central ban converged on Basel, the Swiss hom their unofficial club—the Bank for I national Settlements—and cobble gether an enigmatic statement that hoped would restore order. Their t declaration indicated merely that ce banks would supply cash to the E bond market "if and when necess


GREGORY J. MILLMAN
HOW REBEL CURRENCY TRADERS OVERTHREW THE WORLD'S CENTRAL BANKS
THE
VANDALS'
CROWN

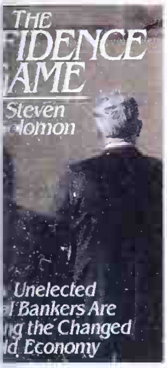
Truth be told, notes S mon, the bankers ha idea what they migh able to come up wit push came to shove. just saying they migh willing to act immedi calmed traders worldv It was "'a real central- confidence trick,'" Sol quotes a satisfied Ban England official saying

With Volcker leading way, central bankers forts to maintain the markets' c dence in their powers have intens over the years. One way to gain faith is to make sure a central ba independent of politicians' contro are the Fed and Germany's Bun bank. This quest for autonomy

AMONG THE BIG CHALLENGES: $1 TRILLION A DAY
WASHING AROUND FOREIGN EXCHANGE MARKET

me that Marjorie Deane, former cen- l-bank watcher at *The Economist,* Robert Pringle, former editor-in- ef of Britain's *The Banker* magazine, lore in detail as they trace the roots entral banking back to 17th century land.

'heir dry prose and intense detail, vever, become overwhelming at times. Few readers, I suspect, will spend much time on Deane and Pringle's dissertation on the fledgling central bank of Estonia and those of other former Soviet states. And while *Central Banks* serves as a useful text for students of monetary affairs, it gives rt shrift to the one force already ding central bankers' authority: the m in trading.



Iy appetite whetted for more on this ject, I turned eagerly to freelancer gory J. Millman's *Vandals' Crown* title refers to the ancient barbarians laid waste to Western Europe). lman sees today's highly paid traders rocket scientists as modern-day van- s, bringing monetary chaos wherever y tread.

Millman writes with a light touch and s his volume with such familiar sto- as the ascent of Philadelphia's man- urrency traders and the triumph of orge Soros over the European Mone- y System. But he saves the best for : the little-known tale of how one ue New York currency trader nearly ceeded in hiding $70 million in losses n his employer, Holland's ABN Amro ık.

'hat disturbing episode points out huge risks that may be lurking in global economy as barriers to trade l finance fall and trading explodes. all their moves toward indepen- ice and victories over inflation, the rld's central bankers are still strug- ng to get a handle on the increasing- scary force of the market. In the new netary order, acknowledge Deane and ngle, "the cost to the financial system a major meltdown]... gets ever larg- as different markets are linked." Per- ps the central bankers were just ky when they saved the day after Herstatt collapse 21 years ago. ether they can continue to con the rkets—or whether the markets break central banks—will be the story of t century finance.

WILLIAM GLASGALL

Senior Writer Glasgall writes about bal finance.

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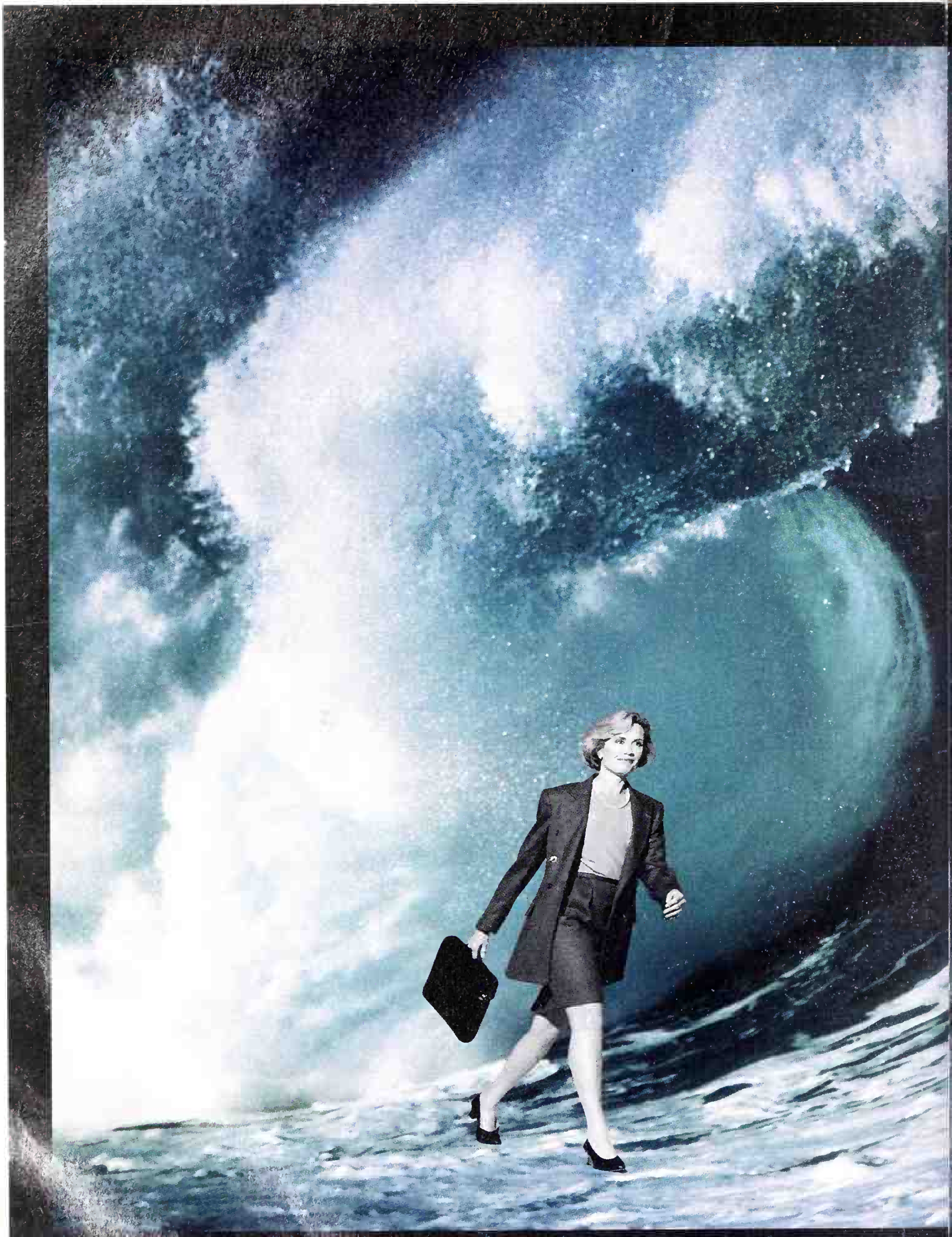

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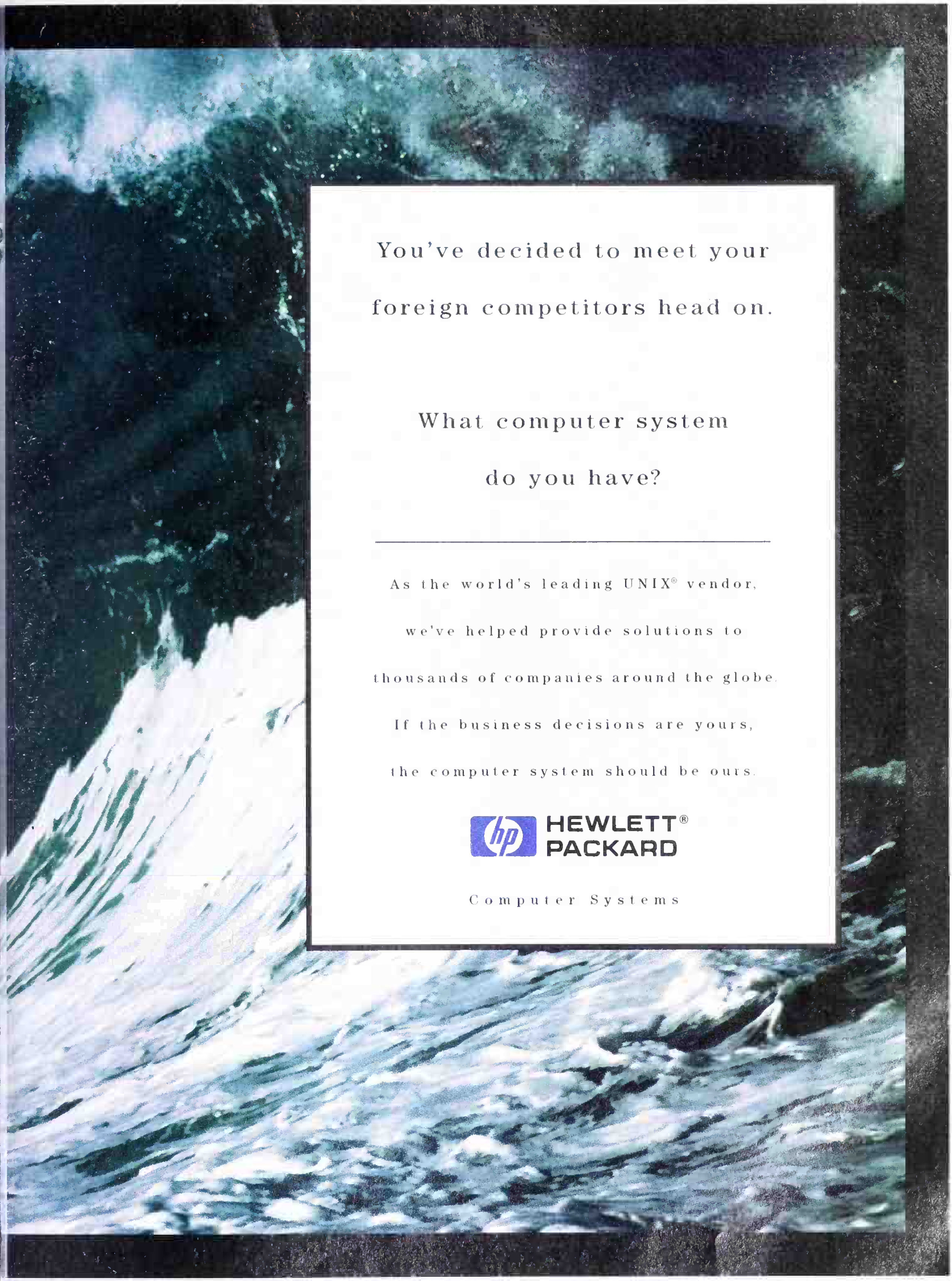

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Computer Systems

BY STEPHEN H. WILDSTROM

TIPS ON TAPPING IN FROM AFAR

Personal computers make it possible for you to work wherever you are—at home, in a hotel room, even on an airplane. But no matter how carefully you plan, there always seems to be some crucial bit of data that you've forgotten to take with you and that you can get only by connecting to your office machine or network. This is where remote-access programs, a fast-evolving area of software, can be lifesavers.

Remote-access software comes in three flavors—and to make things more confusing, two and sometimes all three of the pieces are combined into single products. Remote file transfer lets you send files to and fetch files from another computer over a phone line. Typical programs for Windows or the Macintosh show the files on the local and remote computers in separate windows and allow you to initiate a transfer by dragging the file from one window to the other.

SPECIAL HARDWARE. Remote-control programs let you use a distant machine as though you were sitting at its keyboard and looking at its screen. Of course, working over phone lines means it will always take a few seconds for the screen to refresh itself, though faster modems and better software technologies are making the delays tolerable. You can hook into your company's network with remote-control software by using it to log your office machine onto the network, but for security reasons, this is not a good idea.

Remote-node software, on the other hand, allows your home computer or laptop to function as though it were connected directly to the office local-area network. The only real difference is that you are linked by a modem, probably with a maximum speed of 28,800 bits per second, rather than a network with speeds of up to 10 million bits per second. But a remote node, unlike the other types of remote access, generally requires special hardware on the network and will only be usable if a network administrator has set it up for you.

If remote network access has been set up for you, you'll have to use the software your administrator has chosen. But if, like most users, you want do-it-yourself file transfer and remote control, you have lots of software choices. My current favorite is Traveling Software's $99 LapLink for Windows, which combines sophisticated technology with simple setup and an interface that makes it easy to switch between remote-control and file-transfer modes. ReachOut from Stac Electronics is somewhat more difficult to use because it requires running a program before you start Windows. However, an upcoming version, expected to cost around $100, eliminates the problem and adds a number of new features. Symantec Corp.'s $129 PCAnywhere is also a popular choice. In the Mac world, probably the most widely used package is Farallon's $139 Timbuktu.

HEADACHES. Anyone setting up remote access of any sort should be aware of security issues. As soon as your computer can take calls from the outside world, it is at risk. You may find your ability to set up a corporate computer for remote access is limited by company security policies. Microsoft Corp. had planned to give all Windows 95 users the ability to set up dial-in access to office networks but removed the feature after corporate network managers complained about security headaches.

Fortunately, off-the-shelf remote-access packages incorporate a range of security features. At a minimum, you should tell the program to accept calls only from specified users—probably just yourself—and to require a password for all access. If you will always be calling from the same location, perhaps from home, you can set up the software so that it automatically calls you back at a predetermined phone number.

Once it's possible for you to reach your computer, there's a chance someone else can, too. But if you take reasonable precautions, the advantages of remote access far outweigh the risks.

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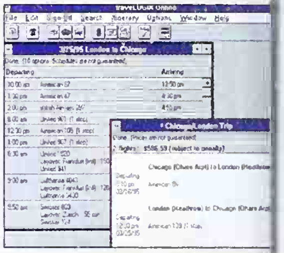


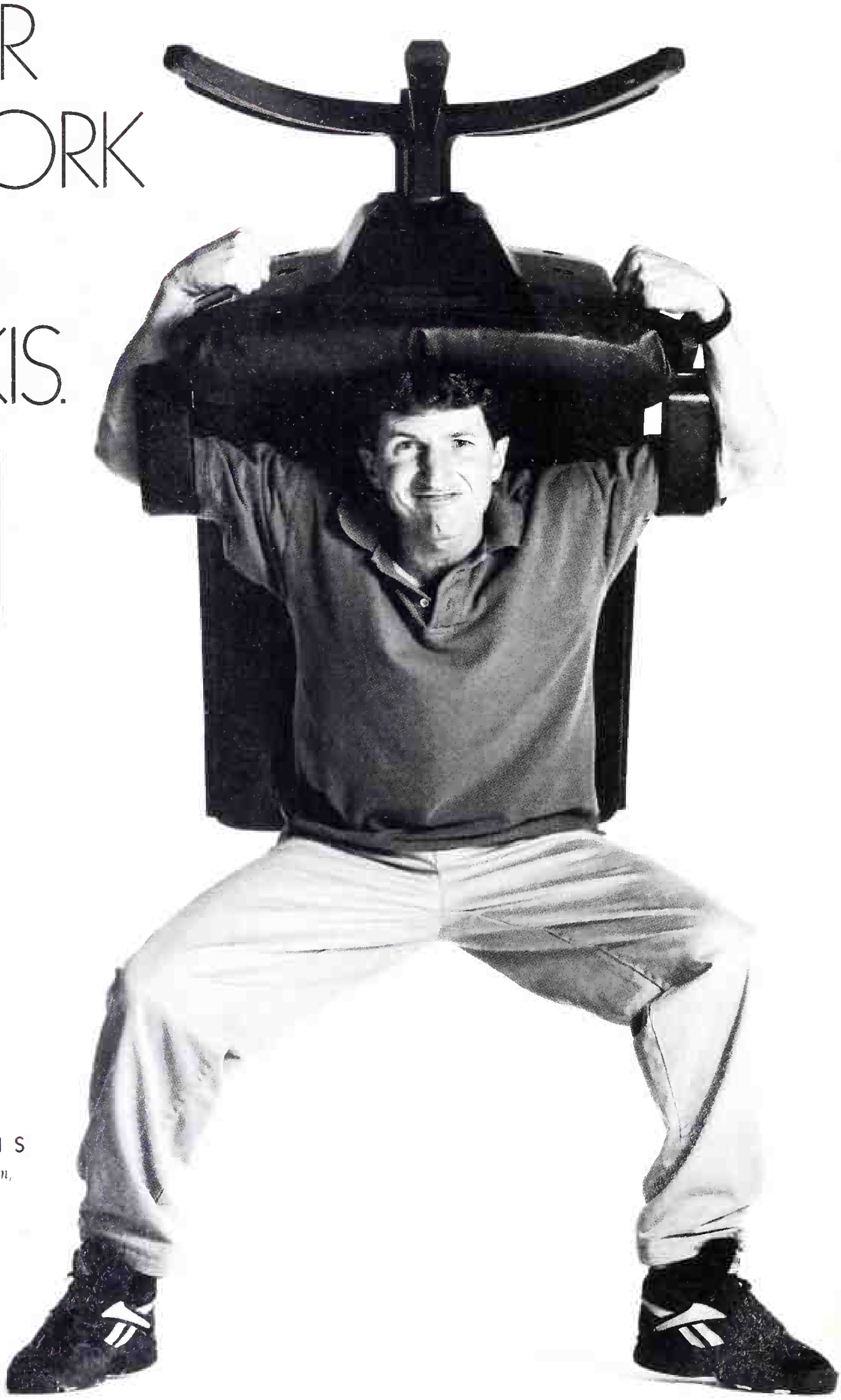
$15 per month plus 15¢ per minute after two hours, you get an easy-to-use Windows interface that lets you build travel itinerary and check fares. You can then forward the itinerary to your travel agent, or you can book the tickets through traveLOGIX. Up grades scheduled for release this summer will add the ability to book hotel rooms and rental cars.

WEB SIGHTINGS

AN ONLINE SEARCHLIGHT

Thousands of new Internet us ers flooding onto the World Wide Web through commercia online services may soon get some help in the daunting task of finding material. In th first deal of its sort, Carnegie Mellon University has license its Lycos Catalog of Web resources to Microsoft Corp. fo use on the forthcoming Micro soft Network. Current Web us ers can check out the catalog at http://lycos.cs.cmu.edu, though heavy demand sometimes overwhelms the system's ability to handle search requests.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125



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A World of Networks

Economic Viewpoint

BY RUDI DORNBUSCH

WHY IS JAPAN SHOOTING ITSELF IN THE FOOT?

INSTABILITY: The rising yen is crippling Japan Inc. Unless Tokyo policymakers face the crisis, companies may flee, and the economy could atrophy

A decade ago, Japan seemed all-powerful—and all set to play a dominant role in world trade and finance. Today, the yen is as almighty as the dollar was at the peak of its overvaluation in 1985, but its strength is illusory. The truth is that overly hard currencies cut first into profits and then into jobs, financial stability, and social cohesion.

The U.S. went down this road in the '80s. It has taken a decade to repair the damage from high real interest rates, bad balance sheets, overvaluation, and premature and excessive deindustrialization. Japan, for its part, has had deep pockets: Losses were covered in home markets by shareholders and bankers who did not ask questions. Now, after many years of financial distress and no growth, the pockets are empty, and a serious battle is under way. Japanese companies know what to do—flee offshore and away from the strong yen, leaving behind broken lifetime contracts, broken banks, and broken public finance.

While the yen is going through the roof, Japan's economy is going through the floor. Companies are on the treadmill of currency appreciation and cost-cutting, banks are in trouble, and the government stands by wringing its hands. Japan is in a deadly spiral of overvaluation that is entirely self-inflicted: It madly pushes out goods and sucks in money. The Japanese save famously, but with profitability depressed, they invest little, and hence flood the world with goods. But as asset-holders, the Japanese insist on hard yen in their balance sheets and earnings flows, dumping surplus dollars around the world. The result, perversely, is a yen so hard that they can't afford to live on it.

TIRED MODEL. In the past, there was Japan Inc.—a tight partnership of government and business that assured stability and growth. The goods and asset markets were kept repressed so companies could enjoy cheap finance from forced savings and high domestic prices to support battles for foreign market share. A rising yen was the rule—but never so fast that productivity growth couldn't pay for the strengthening of the currency. Today, the model is wearing thin: Companies want to survive, and that means going offshore. Financial markets cannot cover up de facto bankruptcy forever, and that means credit is getting rationed. Government is straddling the fence between international commitments and the domestic conspiracy to keep markets sh tered. In policy and politics, the country faring no better: Old-timers are running Ministry of International Trade & Indust the Bank of Japan, and the Ministry of nance as if nothing had happened. But w one-party rule shattered, politics is turn into a free-for-all.

For once, U.S. policies are not the reas for the strong yen. In comparison with Jap and Germany, the U.S. looks far sound than it did in 1985, at the dollar's peaks. T budget deficit is smaller than Germany's Japan's, and the inflation rate has been m erate for a decade. True, budget-cutting wo be desirable, and it would be a good idea have a more concrete commitment from Federal Reserve to moderate inflation, even that would not make much difference the yen.

TREADMILL. Hot money funds might magn the problem, but don't blame them—this i problem of Japan Inc. malfunctioning. O the past few years, Japanese monetary pol has been consistently supertight. True, inter rates were low, but prices were falling, that meant real interest rates were high, es cially considering the strained balance she and the absence of growth. Fiscal policy v also misaligned: There was stimulus, but was always too little, too late. The righteo ness of wrongheaded policymakers is remi cent of the U.S. in 1928-32, when insistence balanced budgets and tight monetary cont precipitated the Great Depression. Japan ne prosperity policies, not more deflation.

Japan must also deal with its perenn trade problem. Until Japan offers an hon program of market opening instead of empty promises of the past decade, finan markets will view Japan's trade surplus yen shortage as reasons to push up the y even more.

So far, the problem has mostly been one Japan and for yen debtors. The trouble m not stay there, though: Increasing fragil in Japan could cause worldwide instabil Until Tokyo grasps its own interests, the r of us can do little to help Japan along.

To get off the treadmill, Japan must ab don the insularity of its trade and finance come to grips with the incompetence of policymakers. On the present course, the ec omy will hollow out at a rapid pace, and a ciety reared on consensus will become divid

Rudi Dornbusch is professor of economics and management at Massachusetts Institute of Technology

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UNITED AIRLINES

EDITED BY MICHAEL MANDEL

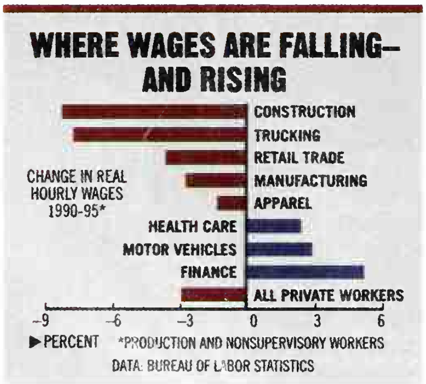
HELP WANTED FOR LESS PAY

Hard hats and truckers are scarce

In congressional testimony last summer, Federal Reserve Chairman Alan Greenspan cited shortages of construction workers and truck drivers as a sign of impending wage inflation. Since then, the lack has gotten worse. Trucking companies are complaining, while builders in go-go cities such as Houston and Phoenix report a lack of carpenters and electricians. "We have people crying for workers," says Daniel J. Bennet of the Associated Builders & Contractors.

With talk of shortages, pay for hard hats and truckers should be going up, right? Wrong. In fact, real wages (adjusted for inflation) are falling faster than in almost any other industry. In the past year, average pay in construction has dropped 0.6%, while the decline in truckers' pay was twice that. Meanwhile, wages for all private-sector production workers fell by by 0.2%. Over the past five years, the decline in relative wages is even greater (chart).

WHERE WAGES ARE FALLING—AND RISING



*PRODUCTION AND NONSUPERVISORY WORKERS

DATA: BUREAU OF LABOR STATISTICS

Falling wages may help create shortages—by making construction and trucking less appealing. These jobs have always involved hazards and irregular hours. Now they've lost their wage advantage as well. "Young people ask: 'Why am I going to do all that for little or no extra pay or benefits?'" says John Heffner, executive director of training for Associated General Contractors, an industry group. With trucking "wages dropping like a stone, it has become a last-ditch occupation," says Michael Belzer of Cornell University.

What's driving wages down in these jobs? Intense competition, deregulation, and the decline of collective bargaining—things that are not about to change. Despite the cries of inflation pessimists, these labor shortages are evidence of the strength of the disinflationary forces in the U.S. economy.

ACADEMIA GOES ONLINE

It aims to sell scholarly papers

More than two decades ago, economists developed portfolio theory and spawned a revolution. Now, three finance economists, Eugene F. Fama of the University of Chicago, Michael C. Jensen of Harvard business school, and M. Wayne Marr of Clemson University, have formed a company to transform how academic information is distributed.

Social Science Electronic Publishing Inc. publishes an economics "journal" on the Internet, which it hopes will widen the market for academic work—and make money in the process.

SSEP maintains a list of subscribers who receive abstracts of academic papers by E-mail. Then, the subscribers—investment bankers, treasurers, and consultants—can use E-mail to request a copy of the paper. Says Mark N. Broadie, professor at Columbia business school, who got hundreds of inquiries after his papers were disseminated by SSEP: "It's amazing the amount of interest out there that was untapped. And not just in the U.S. People in Australia, Europe, and elsewhere can now get access to information this way."

SSEP is about to launch a product on accounting and maybe later all the social sciences. As more and more papers are distributed over the Internet, some journals may abandon print, as the papers get wider distribution. And that may be good news. "We are changing the academic landscape. People used to publish to get tenure. Now there will be less junk because they will be writing for public consumption. People have to focus on good topics," says Marr.

By Christopher Farrell

THE TEMP BOOM IS HERE TO STAY

Low joblessness doesn't faze it

Even with 5.5% unemployment and a recovering labor market, many companies depend heavily on temporary help. Temp outfits have added more than 1 million workers over the p three years, and their employment rising at 17% annually. They are me ing the strong demand for temps telecommunications, computers, hea manufacturing, and banking.

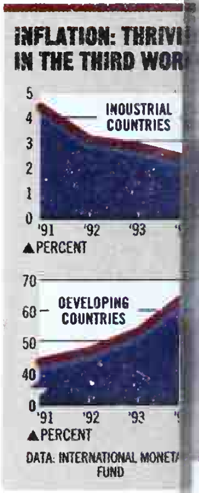
The strength and longevity of t temporary-help boom has surprised ev Mitchell S. Fromstein, CEO at Manpo er Inc., one of the world's largest te agencies. Fromstein says busines such as his may have become an in gral part of the hiring process. "Com nies don't want to make a hiring m take," says Fromstein, so instead advertising permanent positions, they choosing their full-time workers out the temporary pool.

INFLATION'S UNEVEN SPREAD

Developing lands take bigger hit

Inflation may be dormant in the U. but it still poses a threat in other tions. Global consumer prices rose a blistering 23.3% pace last year, acco ing to the International Monetary Fu But this masks a striking divergen Disinflation is taking deep root in the dustrial nations, but prices are ris sharply in much of the developing wo (chart). For instance, from 1991 throu 1994, consumer price inflation fell from 4.2% a year to 2.6% in the U.S., and from 5.6% to 0.2% in Canada. Meanwhile, among those regions reporting complete 1994 data, inflation rates in both Latin America and Africa doubled during the past four years.

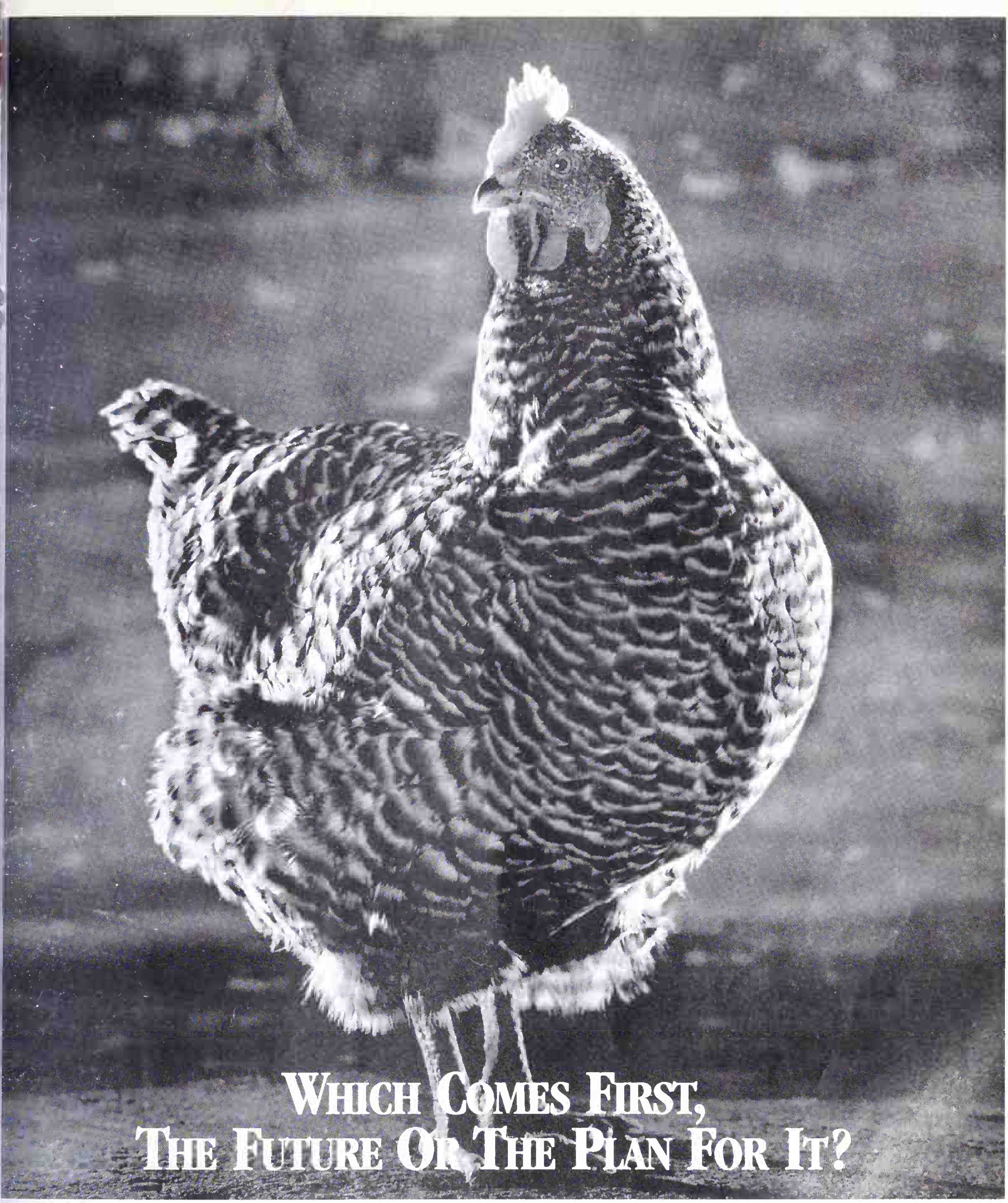
INFLATION: THRIVI IN THE THIRD WOR



DATA: INTERNATIONAL MONETA FUND

This dichotomy is a testimony to the power of monetary policy. Money growth is low the industrial world, as central ba use constraint to dampen inflation. central banks in fast-growing develop countries are more worried about fi ing fast growth or propping up ca poor state-run companies. Governme in some stagnant Third World nati are running the printing presses to off bureaucrats.

By Christopher Far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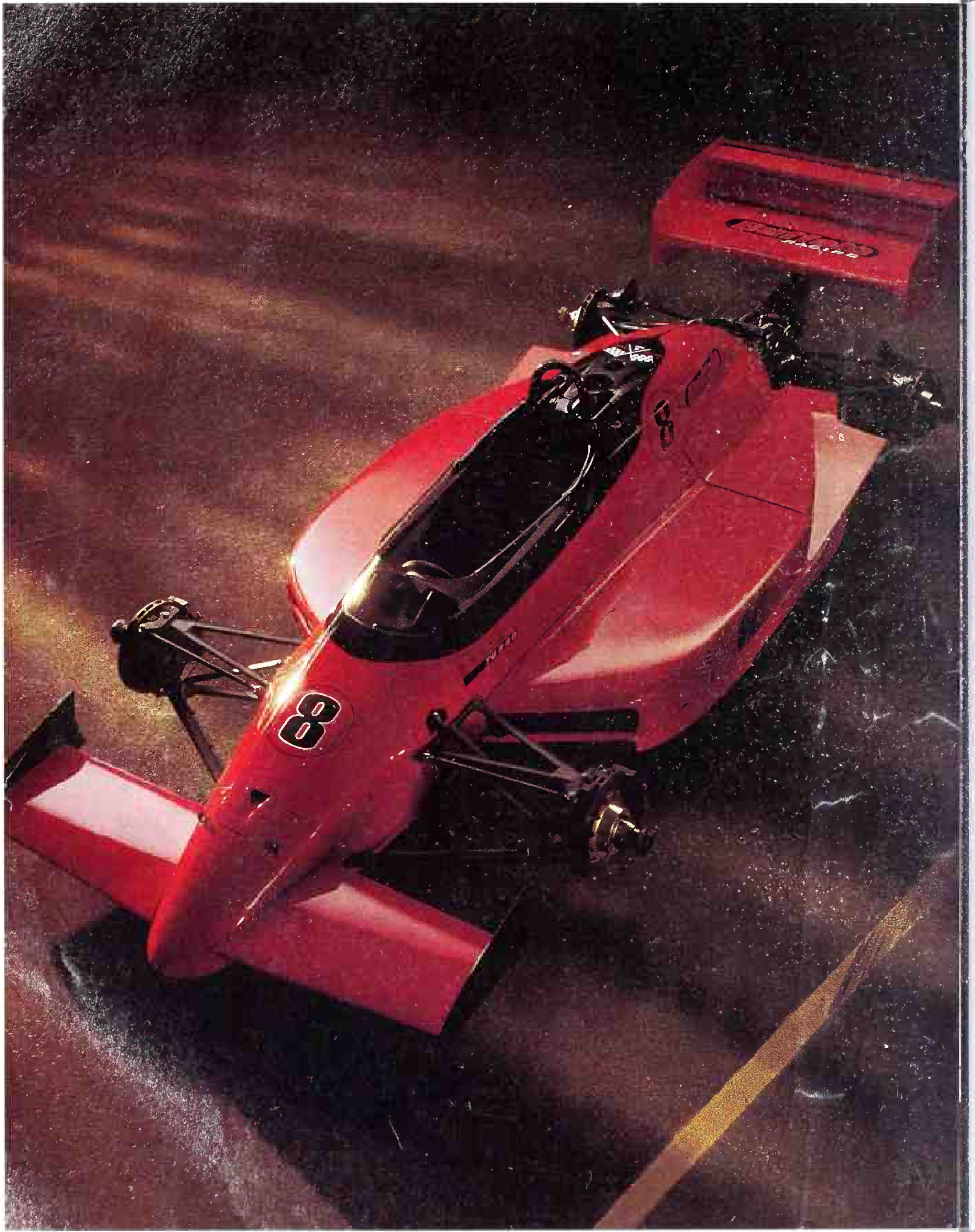
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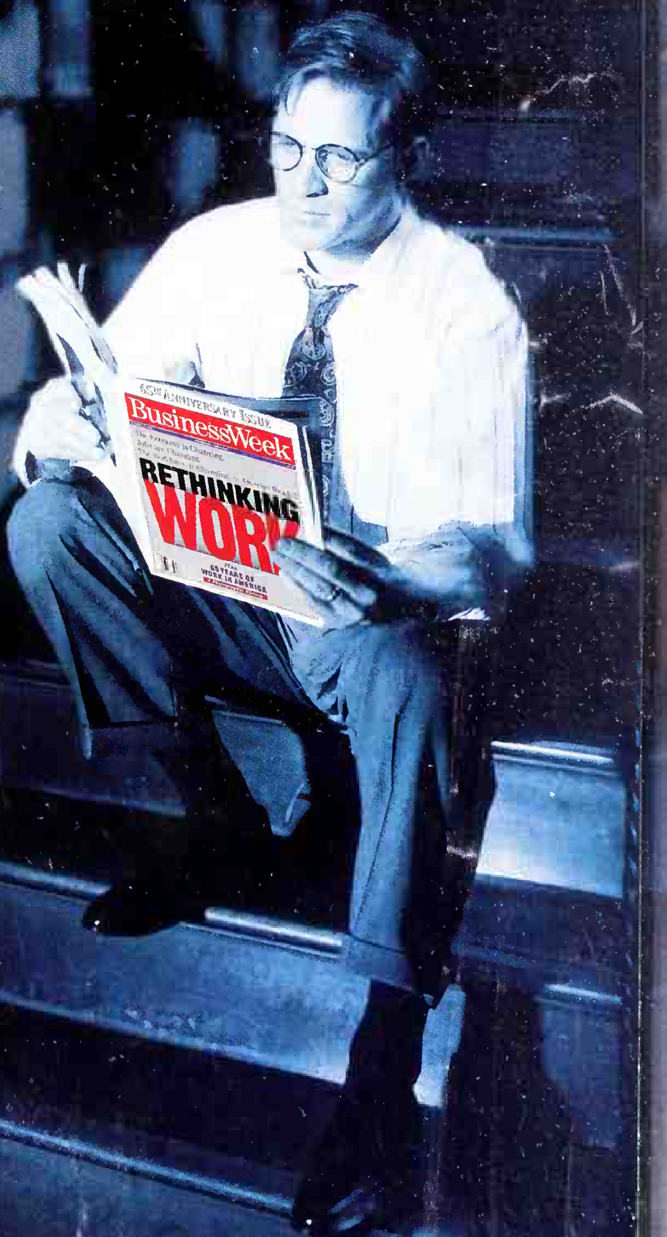

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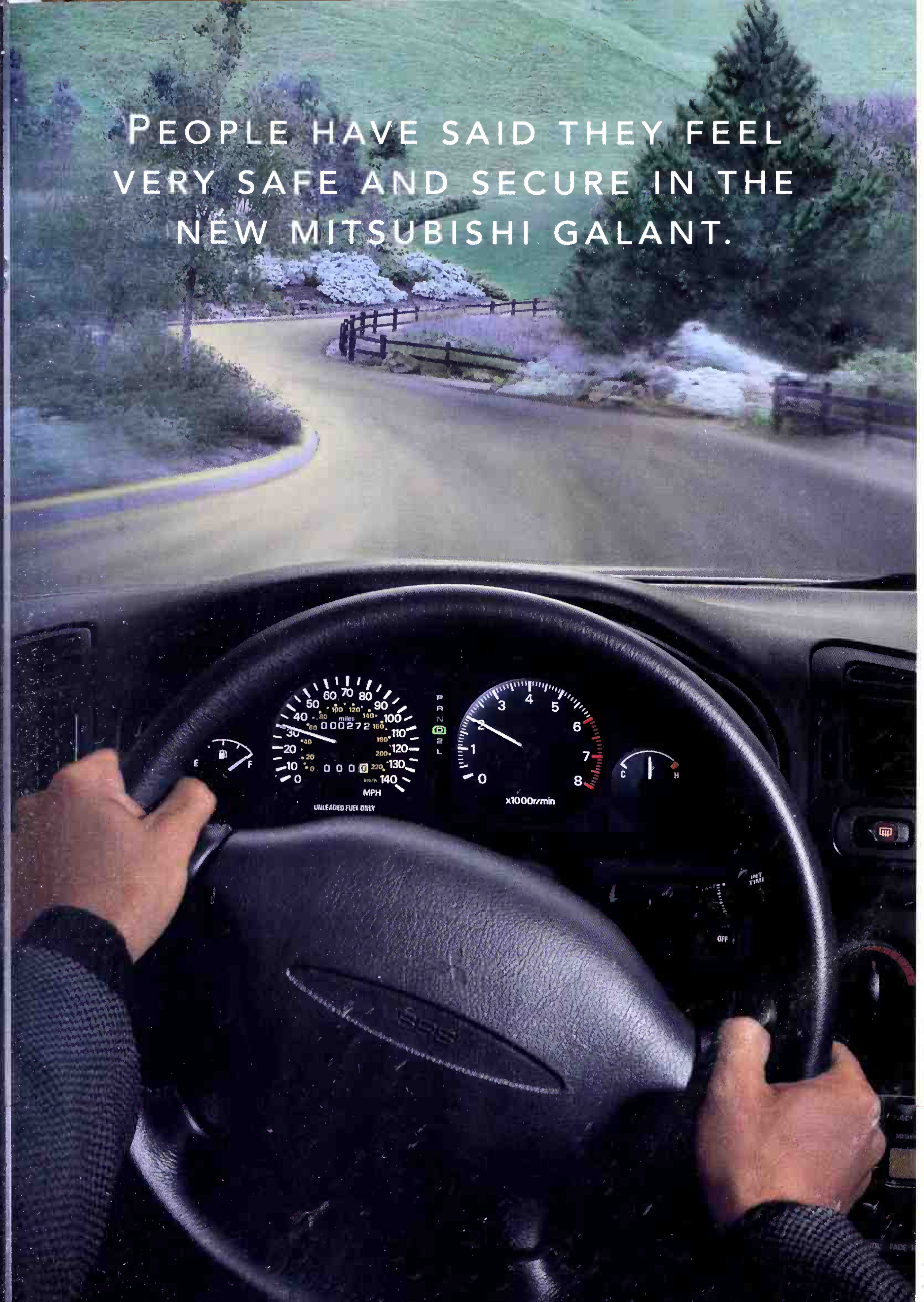

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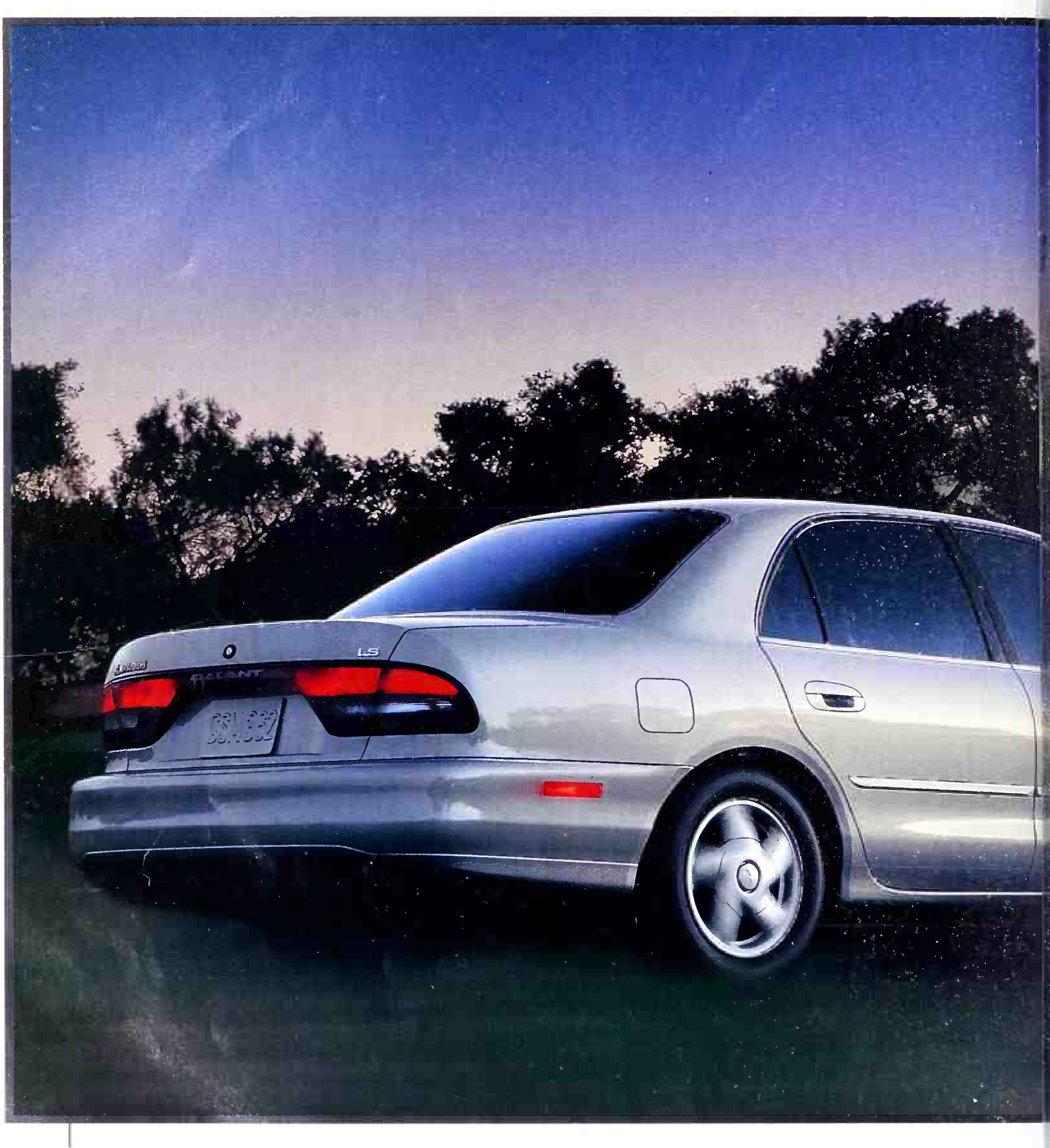

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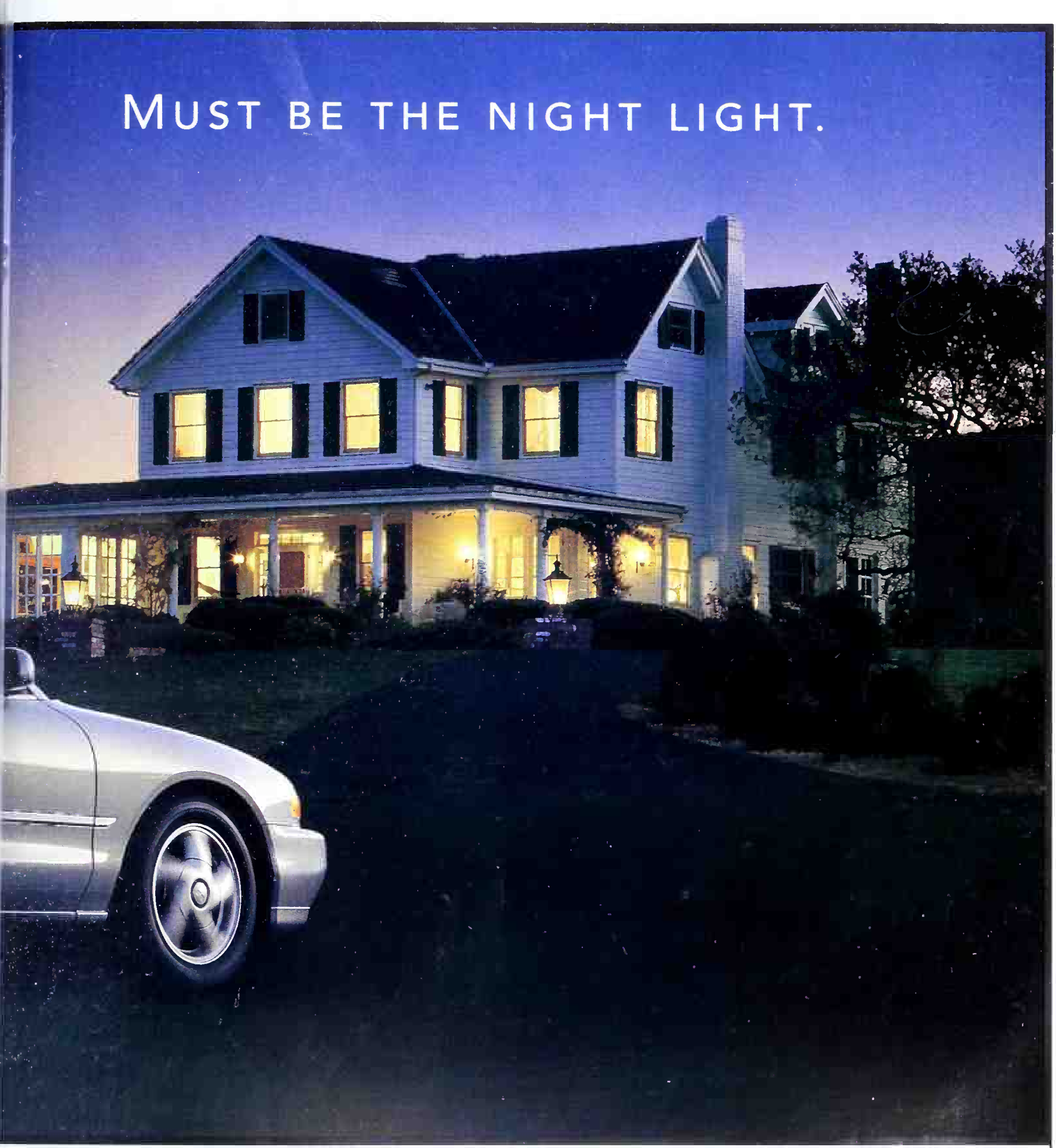

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JAMES C. COOPER & KATHLEEN MADIGAN

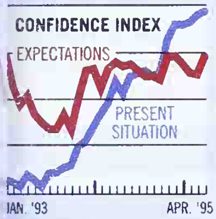
VHY INFLATION ISN'T SPROUTING N MR. GREENSPAN'S NEIGHBORHOOD

U.S. ECONOMY Economic growth keeps rolling along despite the Federal serve's efforts to restrain it. Labor markets are at ir tightest in five years. And consumer confidence is ıping. Right about now, signs of rising prices should popping up like dandelions on a spring lawn.

nstead, the inflationary landscape remains a well-ded vista. Hardly a weed is in sight, and price pres-es should stay tame for the rest of the year. What ports this sanguine outlook? Certainly, the Fed's en hikes in short-term interest rates play a big t. Call them monetary preemergent—a strike against ation before it could take root.

More important, labor costs are growing at the slowest pace on record, while rising orders for durable goods show that businesses are still investing in more productive machinery. This commitment to productivity combined with small gains in compensation will hold down the growth in unit labor costs—the major determinant of inflation.

CONSUMERS SING A BRIGHTER TUNE



INDEX: 1985=100

DATA: CONFERENCE BOARD

'ed Chairman Alan Greenspan has emphasized the ed to remain vigilant against even the slightest hint price pressures this year. To that end, one of the cen-l bank's greatest concerns will be any pickup in nsumer demand. Consumers are clearly feeling more imistic (chart). But reports on April retail sales n't show an overwhelming urge to splurge.

This shopping ennui is important to Fed policy. As g as demand grows only modestly, price pressures nnot build up any momentum.

UE, INFLATION FEARS remain. One reason is her commodity prices. Prices for raw materials in-ased rapidly in 1994. But since January, they have tened out. Higher input costs have not been passed ough into the prices of finished goods.

One area worth watching is oil—still an inflation e spot in the U.S. Crude-oil prices neared $21 per rel in mid-April on news of a pipeline closing in North Sea and low gasoline inventories in the U.S. t the repairs to the pipeline were completed sooner n expected, and American refineries have boosted duction. So oil prices are back to near $20, pulling soline and heating-oil prices down with them.

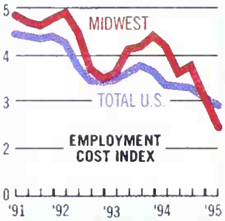
Higher materials costs alone will not boost the inflation rate by very much, though. Nor will the weaker dollar. The most important element in the inflation outlook is the cost of labor. That's because compensation is a far greater expense for businesses than is the cost of raw materials. And unless an economy is growing fast enough to bid up wages, price hikes for input materials generally do not stick.

THAT SAID, the recent data on employment costs underscore the view that any rise in inflation this year will be modest. The cost of wages and benefits for all private-sector workers rose 0.6% in the first quarter. For the year ended last quarter, compensation was up 2.9%, the lowest growth rate in 16 years of data.

Benefits have led the slowdown. These costs edged up just 0.1% for the quarter and have risen only 2.9% for the year. Wages actually grew a bit faster, rising 0.8% in the first quarter. The Labor Dept. said that slower growth in health-care costs, state unemployment insurance, workmen's compensation, and employer contributions to retirement funds have contributed to the moderate increase in benefits.

Labor bills in the Midwest region are growing at the slowest rate in the nation. Wages and benefits there rose 2.4% over the past year—the lowest pace ever for the Midwest. The region's paltry increase pulled down the growth in labor costs for the entire U.S. (chart). The growth rates for the three other regions are still at least a bit above their lows, hit back in 1986.

WHERE LABOR COSTS ARE HARDLY GROWING



▲PERCENT CHANGE FROM A YEAR AGO

DATA: LABOR DEPT., BUSINESS WEEK

The Midwest phenomenon says more about the erosion of unions than about the tightness of labor markets. In fact, jobless rates in the Midwest states averaged less than 5% last quarter—well below the national rate. But while unions still have a big presence in the manufacturing belt, their clout is rusting.

That's evident in the first-quarter report on collective bargaining settlements. The Labor Dept. said that union contracts settled in the first quarter call for annual pay raises of only 1.9% over the life of the contracts. These agreements replace settlements that won more generous pay raises of 3%.

Puny pay gains among union members make it hard to see how any upward push on wages will gel among workers generally. That's especially true if the economy

ERIC HOFFMANN/BW

slows. The Fed is betting that the economy will grow below its potential, creating slack in the labor markets. That will chill any wage pressures.

CRUCIAL TO THE FED'S BET will be consumers. In April, they felt pretty chipper. The Conference Board's index of consumer confidence jumped to 105.5 from 100.2 in March. It was the highest reading in five years. Households are upbeat about the current state of the economy. The present situation index rose from 115.3 to 117 in April, also a five-year high.

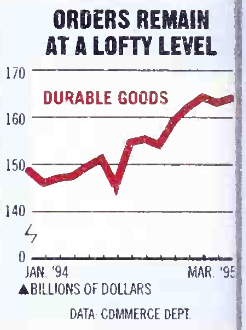
Consumers are particularly optimistic about job prospects. The Board said that 23.4% of respondents think jobs are plentiful. That's better than the 21.1% at the end of 1994, and it's just below the 23.7% who feel jobs are hard to get. What's more, changes in the present situation index are a good indicator of changes in employment. So nonfarm payrolls should show another gain when the April data are released on May 5.

Consumers remain uncertain about the future, though. The expectations index jumped in April, to 97.7 from 90.1 in March, but the index is no higher than it was a year ago or at the start of the expansion.

Higher spirits are not lifting store receipts. Retail sales for the first three weeks of April were weaker than in March, according to two trackers of weekly sales data, the Mitsubishi Bank-Wertheim Schroder index and the *Johnson Redbook Report*. Households have less extra cash because higher short-term rates lifting the cost of existing adjustable-rate debt such credit-card balances and mortgages.

Despite slack retail demand, the factory sector mains vibrant (chart). New orders for durable go rose 0.6% in March, after a 0.7% drop in February.

The biggest gains were in electrical equipment a industrial machinery. These are the same goods d tined for commercial use and exports. Orders for c sumer durables have been falling recently.



DATA: COMMERCE DEPT.

What this means is that companies remain committed to expanding capacity and improving efficiency, even as the cyclical gains in productivity fall away. Smaller increases in factory output have eased capacity constraints in industry. High operating rates are usually a sign of production bottlenecks and shortages of supplies that lead to price hikes.

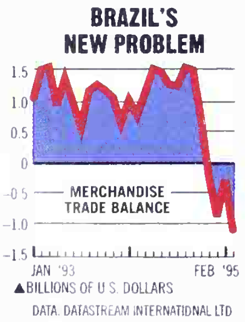
So far, though, the economy has eluded the wee creep of rising prices. The slow pace of wages h clearly helped to plow under inflation. And for the r of 1995, Greenspan and his cohorts stand ready w their spades and pesticides, intent on keeping inflat out of the well-manicured economic outlook.

BRAZIL

THE RUTS IN THE ROAD TO REFORM

Just when newly inaugurated President Fernando Enrique Cardoso appeared to have Brazilian inflation on the ropes, his plan to kill it so strengthened consumer demand and the country's currency that it caused another problem: a gaping trade deficit.

The plan indexes prices and wages to a new U.S. dollar-anchored currency—the real—whose value is backed by the central bank's foreign exchange reserves. Brazil cut inflation from 45% per month in 1994 to 0.8% in January.



DATA: DATASTREAM INTERNATIONAL LTD

However, increased consumer spending has pushed the trade balance into deficit (chart). And remedies such as a devaluation of the real and a Mar. 29 hike in import tariffs to 70% on cars and 108 other durable goods are pushing prices higher. Inflation has quickened to 2.5% per month in April, just as the minimum wage is set to jump 43% in May. Analysts have lifted their inflation forecasts to 30% for all of 1995, while cutting this year's growth projections to about 4%, after 5.7% in 1994.

Some companies are going back to the old way of linking prices to the cost of living, which could kill the real plan. Moreover, because the Mexican crisis has caused investors to shun countries with big trade and government deficits, Brazil has had to use a chunk of its reserves to defend the real.

To cut back demand and save the real, the central bank tightened monetary policy on Apr. 24, and the government is making plans to put forth other anticonsumption measures. President Cardoso himself flew to New Yor on Apr. 17 to reassure Wall Stree that he can reform the Constitution, overhaul the tax system, cut government spending, and privatize state-run companies.

For now, analysts are optimistic, but they warn that reform will come slowly. Cardoso does not yet have a legislative liaison to deal with the new Congress. Furthermore, more than 60% of the public debt is owed by local governments and state-run companies. With the real plan at risk, however, the need for structural reform has taken on a heightened sense of urgency.

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HEALTH CARE

SUDDEN ILLNESS

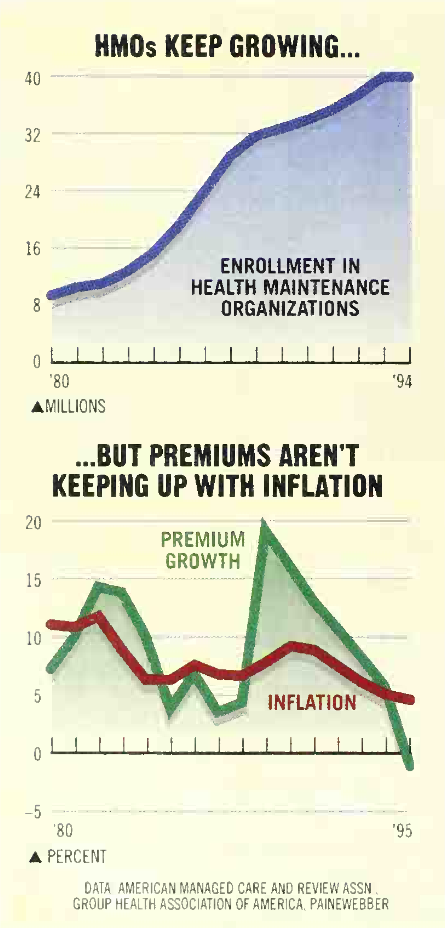
Managed care faces a harsh new reality

William W. McGuire isn't pleased. Just two weeks ago, the chief executive officer of United HealthCare Corp. was basking in praise from investors impressed with the Minnetonka (Minn.) health-maintenance organization's growing membership rolls, strong earnings, and $1.8 billion in cash. Then, out of the blue came a couple of gloomy forecasts from his HMO rivals. In one day, United's stock price plunged 9%, to 39¼. "There's always an event that causes an overreaction in the market," McGuire laments. "Someone always yells, 'The sky is falling! The sky is falling!' "

Well, perhaps it is. The days of unbridled growth in managed health care are coming to an end. Fueled by steady double-digit increases in medical costs, and then by the Clinton Administration's push for health reform, HMOs and their managed-care brethren enjoyed nearly a decade of heady expansion and robust profits. But with costs stabilizing and markets beginning to mature, competition suddenly has reached a boiling point. Profit margins likely will drop industrywide. Says Alan R. Hoops, CEO of PacifiCare Health Systems Inc., an HMO in Cypress, Calif.: "The high double-digit growth simply can't continue."

COLLAPSE. That became crystal clear on Apr. 24, when U.S. Healthcare Inc. reported disappointing first-quarter gains. The cause: price cuts to woo more members and higher-than-expected costs. The outfit's net profits rose just 5.8%, to $94.6 million, even while its sales jumped 16.5%, to $833.8 million. "The competition has stepped up a notch," says David F. Simon, senior vice-president of U.S. Healthcare. "Growth is important and can't be neglected just to satisfy profitability."

U.S. Healthcare, an industry bellwether, saw its stock collapse by nearly a third in the space of a week. Shares of such rivals as Humana, Oxford Health Plans, PacifiCare, and FHP International suffered similar pummelings. Helping to drag down HMO shares was word from HMO United Wisconsin Services Inc. on Apr. 19 of an expected 50% to 55% decline in first-quarter earnings. "I don't think this is unique to a couple of companies," says Kimberly Purvis, a health-care analyst with Donaldson, Lufkin & Jenrette Securities Corp. "It's an industry trend."

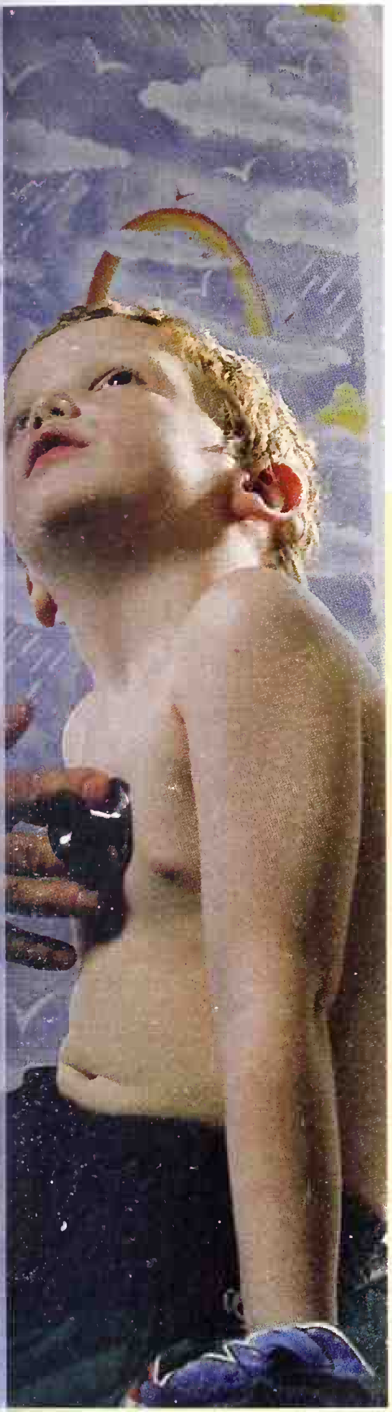


DATA: AMERICAN MANAGED CARE AND REVIEW ASSN., GROUP HEALTH ASSOCIATION OF AMERICA, PAINEWEBBER

HMOs are now battling each other rather tha stodgy fee-for-service plans

HMOs are being forced to confront sobering reality that their business getting crowded. Rather than compet against stodgy fee-for-service pla HMOs today are slugging it out agai each other and other forms of manag care in increasingly saturated marke While enrollment in managed-care pl is rising, so are the costs of secur and keeping new customers. The shot: "Every plan won't be a long-te survivor," says Alan Peres, manager

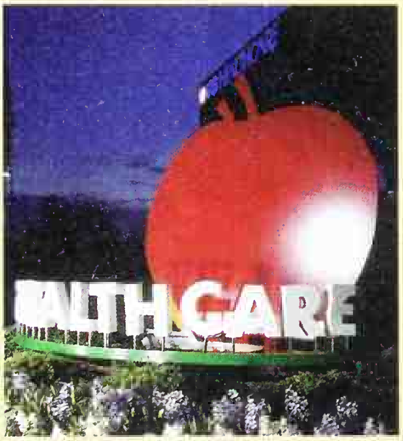
PHOTOGRAPHS BY GAMMA LIAISON, STEVE WINTER/BLACK STAR, CHARTS BY LISA KNOUSE BRAIMAN/BW



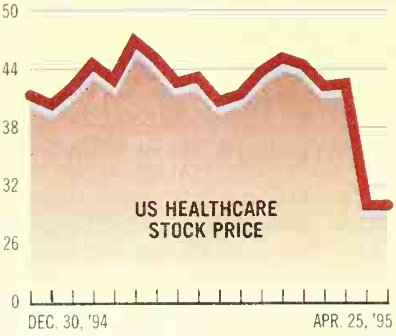
efits planning for Ameritech. Earlier
year, WellPoint Health Networks
, a Woodland Hills (Calif.) HMO, an-
nced that it would merge with
lth Systems International Inc. in a
billion deal. Last year, FHP Interna-
al Corp. engineered a $1.1 billion
ger with TakeCare Inc.

orporate America's infatuation with
aged care is hardly ebbing. Accord-
to the Group Health Assn., nearly
million people are enrolled in HMOs in the U.S., with 6 million more expected by yearend. Although 66% of employees at companies of 10 or more workers are enrolled in some form of managed care, many geographical markets remain untapped, especially in the Northeast and Southeast. "There's still plenty of capacity," says David Wilson, managing director of Apex Management Group, a managed-care consultant and actuarial firm.

But a confluence of unexpected forces is pressuring profit margins. For one, many HMOs appear to have misjudged their costs this year. DLJ analyst Purvis says most HMO managers set 1995 premiums assuming a modest medical inflation rate of 0% to 2%. But in the first quarter alone, doctor charges in the U.S. are up 2.8%, compared with 3.9% for all of 1994. Similarly, overall hospital costs for HMOs are up 1.5% for the first quarter, compared with 4% throughout 1994. In addition, analysts speculate that as managed care plans expand, they are being forced to take on less healthy patients. Some plans also may be raising compensation to attract the physicians they need to accommodate new enrollees.



WALL STREET'S HEALTH-CARE WORRIES



DATA: BLOOMBERG FINANCIAL MARKETS

Stiff competition in saturated markets, moreover, is giving corporate purchasers clout to bargain prices down. Last year in California, the largest managed-care market, employers' average HMO premiums rose just 2%. One big buyer, the California Public Employees' Retirement System, saved $80 million this year by demanding a 5.2% premium rollback from Kaiser Foundation Health & Hospitals Group and other managed-care providers. "For years, the HMO business was really shooting fish in a barrel," says Uwe Reinhardt, a Princeton University economist. "For the first time, [HMOs] are actually facing a tough buyers' market."

In search of growth, managed-care companies are scrambling to win customers in the enormous, virtually untapped Medicare and Medicaid markets. Of the 70 million people covered under Medicaid and Medicare, fewer than 10 million are enrolled in managed care, estimates John S. Penshorn, a senior research analyst with Piper Jaffray Inc.

Here, the industry may get a boost from Washington. Republicans, scrambling to balance the budget, hope to get major savings from the $267 billion spent on Medicare and Medicaid. A draft budget by Senate Budget Committee Chairman Pete V. Domenici (R-N.M.) proposes encouraging Medicare recipients to sign up for managed-care programs. The GOP ultimately wants to replace Medicare with a voucher system that would allow seniors to buy whatever form of coverage they like.

ELDER COSTS. The risk is that HMOs may find the cost of elder care higher than anticipated. "If the premiums don't cover the costs of providing care for the elderly, no insurer is going to want to play ball," says Alan Hillman, director of the Center for Health Policy at the University of Pennsylvania. Indeed, Physician Corp. of America reported disappointing earnings in late March, citing higher than expected costs associated with its Medicare business.

Some investors continue to be bullish on the HMO industry. Steve Enos, a portfolio manager for Wells Fargo & Co., figures HMO enrollment will grow to 50% of the U.S. population over the next decade, with well-managed HMOs enjoying growth of 20% for years. "I see this as a great opportunity to buy HMO stocks," Enos says. But the skies certainly do look ominous. For every HMO growth stock in the years ahead, there likely will be plenty of casualties.

By Ron Stodghill II in Chicago and Eric Schine in Los Angeles, with Joseph Weber in Philadelphia, and bureau reports

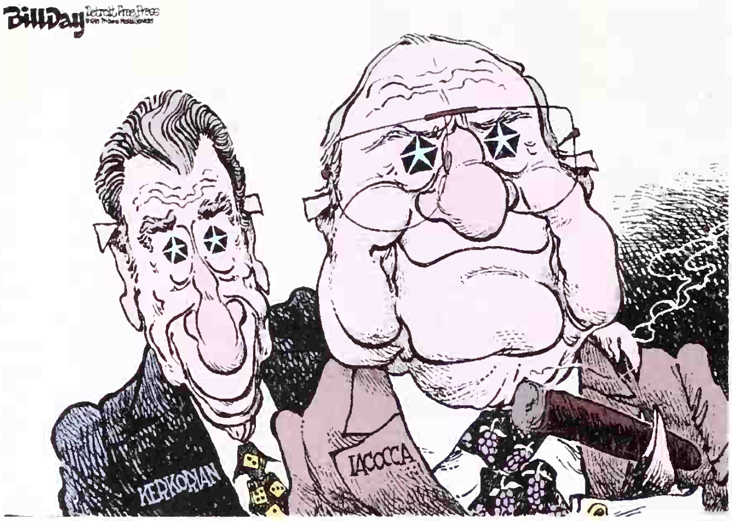
COMMENTARY

By David Woodruff

YOU GOTTA KNOW WHEN TO FOLD 'EM, KIRK

Ever since billionaire Kirk Kerkorian snapped up a big pile of Chrysler Corp. stock in 1990, Wall Streeters have wondered: How will the big-time gambler cash out? That question looms larger than ever, now that his audacious $20.5 billion buyout gambit seems more like a pipe dream every day.

Chrysler's board on Apr. 24 roundly rebuffed the bid. The company's directors "do not have any interest in gambling with Chrysler's future," Chairman Robert J. Eaton wrote to Kerkorian and partner Lee A. Iacocca. In his angry reply the next day, Kerkorian complained that "key decisions regarding the future of Chrysler are being made by a group of people who own less than 1% of the stock," and demanded a shareholder vote on the $55-per-share offer.



Chrysler has left the door open for a stock buyback. Finding a white knight to take Kerkorian's stake would be trickier

But the Kerkorian forces admit they still have no financing lined up. Without that, a vote—let alone a hostile bid—seems futile. Chrysler's shares, which had jumped to nearly $49 on the news of the bid, dropped to under $42 on Apr. 26 because of fears that the offer is under water.

GREENMAIL RAGE. So now what? Think compromise. A good one already may have come up in discussions between the two sides. A source close to the situation contends that before Kerkorian and Iacocca launched their bid on Apr. 12, Chrysler offered to help find buyers for the duo's shares. Alex Yemenidjian, an executive with Kerkorian's Tracinda Corp. investment company, denies that such an offer by Chrysler was ever made.

Whatever the truth may be, the two sides now may be ready—and would be well-advised—to reconsider the idea. Chrysler's brass is disgusted with the meddling by Kerkorian and Iacocca, and would love nothing better than to be rid of them for good. And unlike most folks, Kerkorian can't just call up his broker and say, "sell." If he dumped his 36 million shares now, Chrysler's stock would tank badly. Barring an unlikely offer from another bidder, Kerkorian may be stuck. "They will do something together," predicts analyst Maryann Keller of Furman Selz Inc.

Greenmail won't fly, of course. Other big shareholders, such as Ted Shasta, vice-president of Loomis, Sayles & Co., which controls 1% of the company's stock, say they would be livid if Kerkorian got a higher-than-market rate for his shares. In addition, a 1987 law slapped an onerous 50% federal excise tax on greenmail earnings. But a deal that paid Kerkorian the market rate might fly with other shareholders, says Lehman Brothers Inc. analyst Joseph Phillippi.

One possible scenario: Chrysler could agree to buy back a chunk of Kerkorian's shares as part of an ongoing share-repurchase program. The company's board left the door open to such an arrangement, saying in a statement after its Apr. 24 meeting that Chrysler might use some extra cash to supplement an ongoing $1 billion stock buyback. Analysts say Chrysler's roughly $2 billion in free cash flow this year would allow it to buy far more stock and maintain the $7.5 billion cash cushion Eaton says it needs.

Such a buyback program would keep Chrysler's share price from skidding much lower, say analysts. Kerkorian's remaining shares then could be sold to the public in a Chrysler-sponsored secondary stock offering, complete with a road show by top executives and help from the company's investment bankers.

Another option: Chrysler could help locate a friendly buyer for Kerkorian's 10% stake. The company would need to find an investor with a longer view than Kerkorian or with strategic reasons to hook up with Chrysler. That might be a tough job, though. For an investment of about $1.5 billion, a white knight such as a foreign carmaker would gain little say in Chrysler's management.

Kerkorian clearly thinks the company is worth more than its current going rate. Still, he paid only an average of $19.37 per share for his stock. So at $42 per share, he would pocket more than $800 million in profit, before taxes. Of course, Kerkorian still would prefer to be trumped by a higher offer. But with his bid showing signs of faltering, he might be wise to settle for a Chrysler-aided, face-saving buyout.

Woodruff covers the auto industry.

LORDS OF MONEY: *Little common interest in solving one another's woes*

AP/WIDE WORLD

OBAL ECONOMICS

ROM ALL-FOR-ONE D FREE-FOR-ALL

' as it might, the G-7 can't pull together to fix the buck

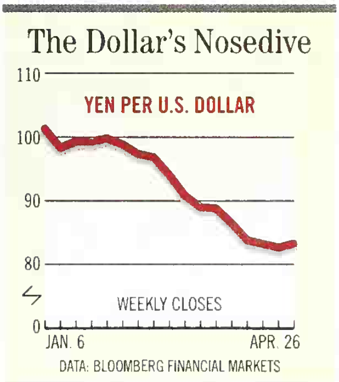
or G-7 aficionados, it seemed like old times: Finance ministers and central bankers from the Group of en industrial nations huddling in a is atmosphere. Japanese and Ger- officials sniping at the Americans, ısing the Treasury of neglecting the ar. And a communiqué—the first in e than a year—warning traders that G-7 would cooperate closely to "re- se" the dollar's decline and return urrency values "justified by underly- economic conditions."

'et try as they might, the G-7 lead- couldn't recreate at their Apr. 25 ting the glory days of the world's t exclusive economic club. In the)s, the "lords of money" shared ng incentives, rich opportunities, and market clout to drive the dollar 'n. But when Treasury Secretary ert E. Rubin convened his counter- s at Washington's Blair House, del- tes representing the world's major ıomies had little common interest in ing one another's currency problems.

DERS' TEST. The result: None of the gest players—the U.S., Japan, and many—pledged to change budget or rest-rate policies to support the dol- Currency traders are likely to test finance ministers' mettle with a new ult on the greenback, which has al- ly fallen 18% against the yen and against the mark this year. In re- nse, the G-7 is more likely to inter- e by buying dollars. But that won't duce the "orderly reversal" the ıp seeks in exchange rates.

ubin trumpeted the communiqué as ignificant" declaration that "the major currencies are out of sync with fundamentals." And Japanese officials, desperate to prove that they're trying to stem the super yen's ravages on the domestic economy, inflated the communiqué even further: Finance Minister Masayoshi Takemura described it as "of dramatic significance . . . unprecedented." He went so far as to compare the pact to the Plaza Accord, which coordinated the dollar's slide a decade ago. "Our determination to reverse [the yen's rise] is impressive."

Trouble is, few analysts believe that impressive action is forthcoming—or necessary. In the mid-1980s, the strong dollar caused the U.S. trade deficit to soar, triggering congressional calls for protectionism that threatened the world trading system. But despite global support for a cheaper dollar, no one country could rein in the buck without damaging its economy. So the G-7 synchronized budget and monetary policies.



The Dollar's Nosedive

DATA: BLOOMBERG FINANCIAL MARKETS

Today, the U.S., Japan, and Germany face homegrown problems that require individual, not collective, solutions. "The steps that are in those countries' individual interests are also the right things to do globally," says Stanford University economist Paul R. Krugman.

Japan could benefit from lower interest rates, more government spending, and increased imports (page 52). Germany, recovering slowly from recession, needs lower rates and labor-market reform to reduce unemployment. The U.S., despite progress against the federal budget deficit, still needs to cut more red ink to ease a savings shortfall that once again is driving up the trade deficit. "For all three countries, the solutions are domestic—there's not much their G-7 partners can do to help," says John P. Lipsky, chief economist at Salomon Brothers Inc.

MUCH TO LOSE. Each country faces political and bureaucratic barriers to reform. So leaders turn to finger-pointing. Bonn and Tokyo called on Washington to raise interest rates. But with the U.S. economy already slowing, Federal Reserve Chairman Alan Greenspan sees danger in doing so. He has the backing of the bond market, which figures that a weak dollar won't boost inflation. President Clinton rebuffed Germany and Japan, saying on Apr. 24 that "we aren't going to do ourselves any good to spark a recession here at home by raising interest rates."

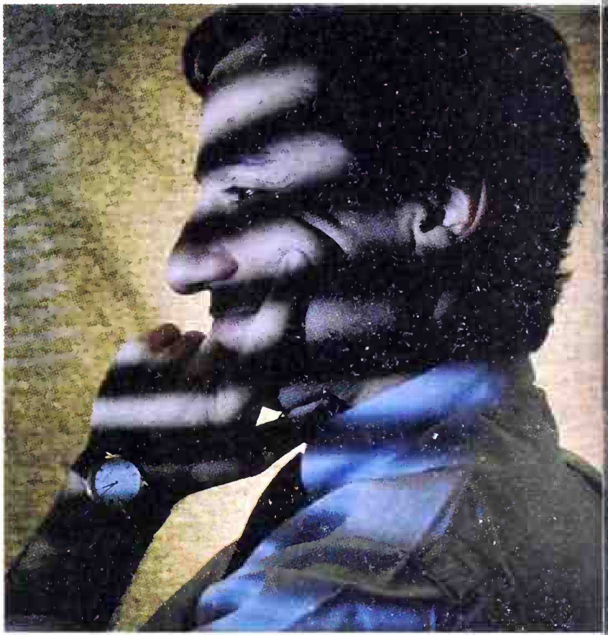
The tensions papered over in Washington won't ease soon. Japan and the U.S. face months of economic uncertainty. By midsummer, says Kemper Financial Services Inc. economist David D. Hale, both countries may decide they need to adjust interest rates further—the Fed raising them if the economy surges again, the Bank of Japan cutting. And the dollar will be under pressure until investors see whether the GOP-controlled Congress will pay for promised tax cuts with spending restraint. G-7 or no G-7, "orderly" currency rates will have to wait until such fundamental issues sort themselves out.

By Mike McNamee, with Dean Foust, in Washington

STRATEGIES

CAN JIM MANZI GET OUT OF THIS LOTUS POSITION?

Profits are falling, shareholders are itchy



CEO MANZI

A bungled price cut hurt his push into communications programs. Investors could press for a sale of all or part of the company

It was the ace in the hole. After ceding leadership of the personal-computer software industry to Microsoft Corp., then giving up the top spot in the spreadsheet market its 1-2-3 once dominated, Lotus Development Corp. at least had Notes. A technical marvel years ahead of any serious competition, the "groupware" communications software promised to spark a revival for Lotus and its chairman, Jim P. Manzi.

In mid-April, though, came compelling evidence that Manzi's software ship once again has lost direction: Lotus announced a staggering first-quarter loss of $18 million on an 18% revenue decline. Most troubling was a steep revenue falloff for Notes, which had doubled its take in the previous year.

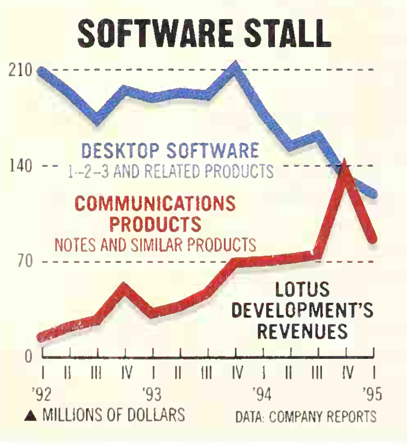
The results confounded Lotus management. "We were well below plan," says Chief Financial Officer Edwin J. Gillis, acknowledging that each of the company's four divisions posted operating losses. A surprised Wall Street took Manzi to task for a misfired strategy. "Lotus top management is not executing on the opportunity as well as they should be," says Paul Johnson, an analyst at Robertson Stephens & Co. Manzi, traveling in Japan, couldn't be reached for comment. Says his spokesman: "The only appropriate response to our detractors is to meet our financial objectives. That's what we're focused on and what we're intent on achieving."

POOR EXECUTION. The first-quarter debacle heightens the likelihood, rumored for months, that Lotus investors soon may press for a sale at all or part of the company. At 34, Lotus' stock is trading above its recent lows—a function, in part, of takeover speculation. But it remains less than half the 80 it reached a year ago and, at 1.5 times trailing revenues, is priced well below the 4.5 industry multiple. Analysts say Lotus might fetch $50 a share, or $2.4 billion, in a buyout.

Manzi may not be completely averse to the idea of a sale. Software industry sources say that earlier this year, he discussed a possible deal with Oracle Corp. Chairman Lawrence J. Ellison. But Manzi wanted $85 a share—a steep price that Ellison, interested only in the Notes business, was unwilling to pay, they say. Analysts say other potential buyers include IBM and AT&T, which have several development projects tied to Notes. Lotus, Oracle, and the other companies declined to comment on any possible deal.

The question: Just how good a business is Notes? Manzi long has argued that Lotus could thrive by creating a powerful franchise in communications software—funded partly by the steady cash flow being generated by older Lotus applications such as spreadsheets. He promised to build Notes' installed base to 20 million customers by 1997 from 1.4 million today, exploiting Microsoft's weakness in communications.

The strategy sounds good, but the execution has been lacking. On Jan. 23, at a meeting with big customers, Lotus announced that within six weeks, it would ship a new version of Notes—priced at 50% less than the current product. Anticipating the potential cost savings, customers simply stopped ordering, Lotus says. The result: Notes revenues tumbled 40% from the previous quar



▲ MILLIONS OF DOLLARS

DATA: COMPANY REPORTS

Was it a fluke? Not everyone thi so. "It raises the question again of j how big the market really is for Not says Goldman, Sachs & Co. anal Richard G. Sherlund. Others w amazed that Lotus could cut prices a lose sales at the same time—even wh demand from many big customers pears to remain strong.

"QUIET PERIOD." There are reasons to concerned that Notes' growth may rebound the way Lotus expects dur the second quarter. "We're likely to a quiet period" in Notes sales while c tomers wait for a competitive prod from Microsoft, called Exchange, s David Marshak, a consultant with S bold Group. Other experts say so customers also may delay buying No until Lotus releases a new version la this year.

Meanwhile, Lotus' desktop appli tions, such as 1-2-3 and the word-p cessing program AmiPro, are in troul First-quarter revenues for that bu ness fell 35%. That's less than the 5 many on Wall Street expected but st tling for a company that once control 70% of the spreadsheet market.

Lotus Senior Vice-President Robert Weiler says WordPro, an enhanced a repackaged version of AmiPro introdu on Apr. 24, will help stop the decline sales of desktop software. But analy

PHOTOGRAPH BY BRIAN SMALE/ONYX. CHART BY LISA KNOUSE BRAIMAN/BW

investors doubt the new program have much of an impact; they think us should sell the applications busi; before it loses too much value, using proceeds to support Notes.

otus executives say Manzi is adat about pursuing his two-tiered tegy—as soon as he stops the flow ed ink. In announcing the first-quarresults, he ordered each of the company's four units to become profitable by yearend, dictating $50 million in spending cuts that will come in part from thinning his executive ranks. Indeed, Manzi indicated in an internal memo that he would fire as many as 15 top executives.

Even with such cuts, Wall Street thinks Lotus will be lucky to make a profit this year, as the applications business continues to decline and spending remains high on Notes development. Will Notes someday pay off, or was Lotus' first quarter a sign of deeper problems? Goldman's Sherlund says investors wanting to find out had better have "thick skin." Thick skin and, perhaps, deep pockets.

By Geoffrey Smith in Boston, with Amy Cortese in New York

OPLE

$50 MILLION SHORTFALL? D PROBLEM!

Graziano, Apple's financial whiz, has things under control

CFO GRAZIANO: *"I knew Apple had some real challenges ahead of it"*

or 18 months, Apple Computer Inc. has been on a mission to up earnings and conle skeptics it's still a e to be reckoned with. l on Apr. 20, quarterly its jumped fourfold over year-ago period. Still, was far short of excations: $73 million on s of $2.7 billion, vs. eet predictions of $114 ion. And the stock? ly, given the bad news, imped three points in days, to just over $39. Vhat gives? Credit the anation—or the explainnamely Joseph A. Graz, Apple's chief financial er. He says much of the rter's shortfall can be lained by losses in fori currency hedging—nly resulting from the ar's big drop in late ch. The result: interest other expenses constid a $50 million loss, vs. 7 million loss in the e quarter a year ago.

FE PLACE." Graziano s the decline a "paper" rtfall on forward and on currency contracts run beyond the quar- If the dollar stays level ises, he says, the loss d be partially reversed as the conts expire. "We're in a safe place ," he says.

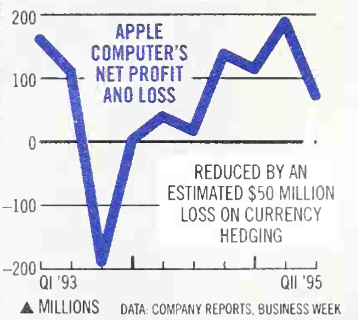
Vall Street seems to agree. Analysts that Compaq Computer Corp.'s ging program suffered a $23 million in the quarter, too. Michael Murphy, or of *California Technology Stock er*, figures if the hedges unwind in its favor, Apple could gain back some $13 million this quarter and another $17 million in the following two quarters. Apple's shipments also were up 20%—a bellwether of better health. Analysts generally laud Graziano for conservative fiscal management.

He does have moments of flashiness, though. In 1989, he earned the moniker "The Million Dollar Man" after Apple ponied up a $1.5 million bonus to lure him away from Sun Microsystems Inc., where he had been CFO for two years. He had already done a stint as Apple's CFO from 1981 through 1985, when he quit to spend time with his brother Anthony, who was dying of cancer.

Graziano returned at a crucial time. Apple's fat 51% gross profit margin was about to get hit by commodity pricing of PCs. And Microsoft Corp. would soon unleash the first versions of Windows, narrowing Apple's lead in the ease of use of its computers. Says Graziano: "I knew Apple had some real challenges ahead of it—well, maybe not to the magnitude that occurred."

Graziano has been key in steering Apple forward. Daniel Eilers, an Apple senior vice-president, says he was "instrumental" to the negotiations with IBM that led to the birth of the speedy new PowerPC chip. Plus, he has slashed costs: Operating expenses are down to 19.9% of sales, vs. levels of about 36% when he returned. Says Robert Saltmarsh, a former Apple vice-president who now is CFO of Radius Inc., a maker of Macintosh gear: "He has had a lot to do with making Apple a more competitive company."

Pinching pennies comes naturally to Graziano, 51. He grew up in Boston, the son of working-class parents of modest means. He did everything from delivering potatoes to hauling meat to pay his way through Massachusetts' Merrimack College, where he graduated in 1965 with an accounting degree.



Today, his lifestyle is less austere. He races vintage sports cars, and has a collection that includes two Lotuses, a Lola, five Ferraris, a Mercedes, a BMW, a Suburban, and a pickup. "He certainly brightens up the parking lot," says Eilers. And if his hedging strategy works out, it could yet brighten Apple's profits a bit. Otherwise, there will be more explaining to do.

By Kathy Rebello in San Francisco

PHOTOGRAPH BY JAMIE TANAKA, CHART BY ALAN BASEDEN

Sea Sources
Come browse through our library
Ocean Planet

INSTITUTIONAL INVESTING: *Sponsor*
are diving into Ocean Planet

MARKETING

THE SPIRIT OF ST. LOUIS, BROUGHT TO YOU BY FORD

The Smithsonian's fund-raising methods are raising eyebrows

These are anxious days for those dependent on government largesse, even a national treasure like the Smithsonian Institution. With federal budget cuts as inevitable as the muggy Washington summer, the venerable group of museums is quietly holding out a tin cup to Corporate America.

The cup isn't coming back empty: Companies as diverse as Orkin, the bug-control outfit, Marvel Entertainment, publisher of Spiderman comic books, and Ford are anteing up big bucks to underwrite everything from an insect zoo to a birthday party for the Smithsonian. And more such arrangements are in the works.

CASHING IN. This isn't just old-fashioned corporate philanthropy, either. The Smithsonian has added a new twist to its sponsorships: The possibility that participating companies can turn a profit on their good will. Times Mirror, for example, made a $750,000 direct investment in a new multimedia exhibit called Ocean Planet. As a tie-in, the premiere issue of its *Pop Sci for Kids* focuses on the exhibit. It also hopes to cash in by selling an exhibition catalog ($39.95), souvenir magazine ($5.95), and CD-ROM game cartridge ($39.95). The company gets the profits from producing the items; the Smithsonian gets a markup and a 5% royalty, plus a 50% royalty on T-shirts and other souvenirs.

Times Mirror isn't the only company trying to leverage its Ocean Planet sponsorship. Ford Motor Co. figures the exhibit will attract environmentally conscious people—the sort who like to drive Explorer sport-utility vehicles. To be sure attendees get the point, Ford, which invested $5 million in Ocean Planet, parked a shiny new Explorer at the show's door. "The Smithsonian has to make sure it isn't too commercial," says Ford ad manager Randy C. Stewart.
"But I had to make it commer
enough to sell more of our vehicles.'

The bottom line for the Smithson
publicity and cash to augment its $
million in annual government fundi
But at what cost? Critics fear compa
will try to influence the content of
hibits, that the Smithsonian name
be cheapened, or that new exhibits
veer toward the low-brow to meet b
ness' need to reach a mass audienc

Smithsonian officials admit they
walking a fine line. T. C. Benson, de
opment director of the National
seum of Natural History, concedes t
the plan to name the bug displaya
Orkin, which came up with $500,000
the exhibit, "curled some toes and ra
some eyebrows" at the museum. To
lay concerns, she says, sponsors m
sign contracts guaranteeing that t
won't meddle with exhibits.

The Smithsonian, nonetheless, la
has been widely criticized for modify
or canceling controversial exhibits.
dumped the Enola Gay display on J
30, after protests by veterans' grou
And Smithsonian Secretary I. Mic
Heyman agreed to change a Scienc
American Life exhibit after scienti
including some at a sponsor, the Am
can Chemical Society, protested tha
gave too much attention to proble
such as radioactive waste and acid r
"EGG ON THEIR FACE." Nonetheless,
Smithsonian is forging ahead with pl
to recruit corporate sponsors to und
write its 1996 anniversary bash, wh
will include a 12-city tour of such m
seum treasures as George Washingt
sword and Abraham Lincoln's top h
In a deal similar to Olympic sp
sorships, 10 companies will sp
$10 million each for the right
use Smithsonian treasures in th
advertising. The first taker:
Discover Card. Smi
sonian development director
rie Mattson says the goal of s
deals is for companies to use "
integrity of the Smithsonian"
enhance their own images.

Purists may have to get used
such commercialism. The museu
clearly need more private-sec
money. "The trick is to pull off
event in which both parties mutu
ly benefit," says Ford's Stewa
"We don't want anyone to come
with egg on their face." Just c
in their pockets.

By Richard S. Dunh
in Washing

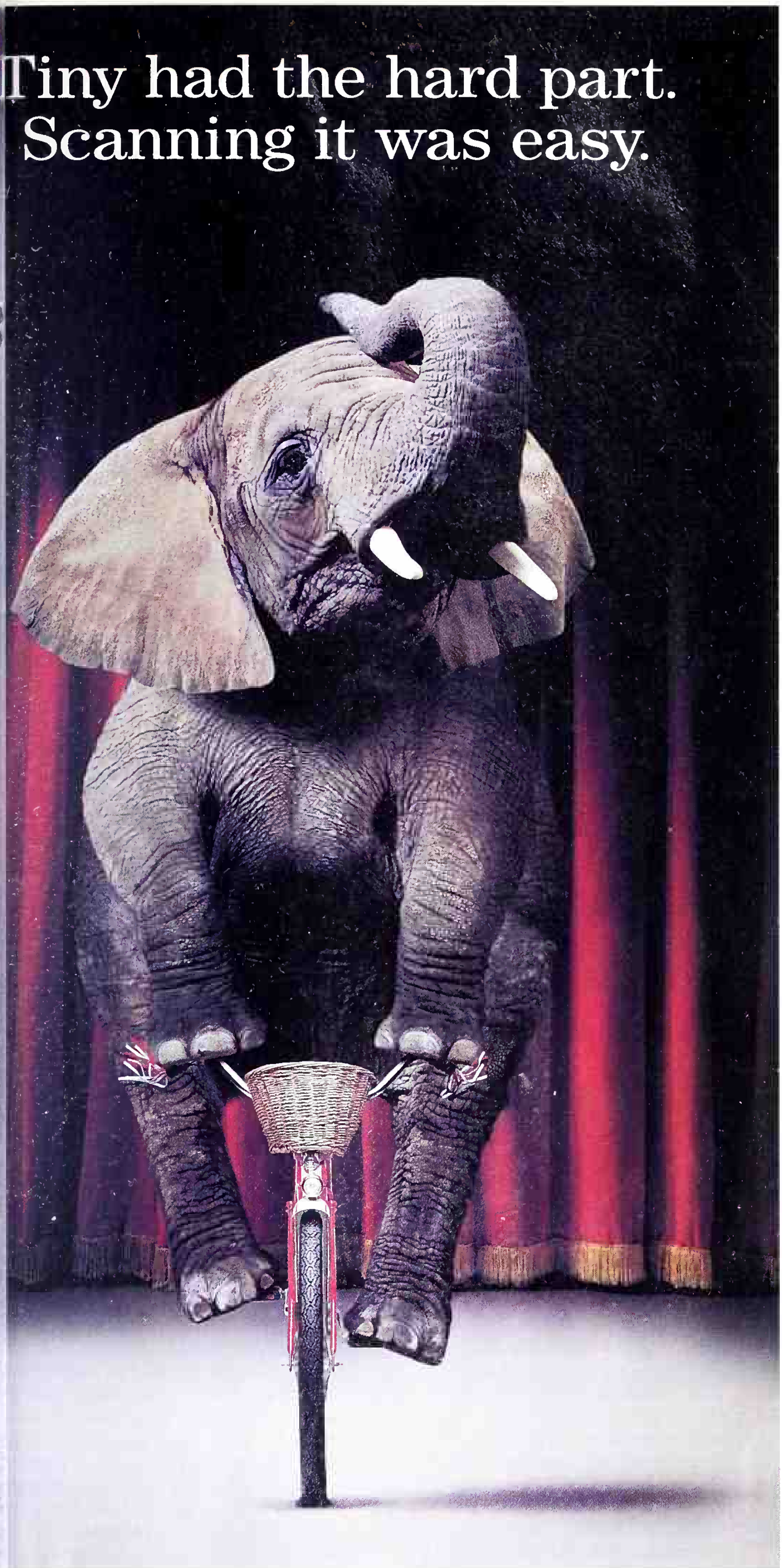
THE CORPORATE CONNECTION

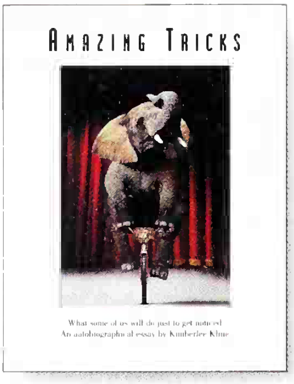
Smithsonian projects sponsored by corporations

ORKIN INSECT ZOO (Opened September, 1993) Permanent educational exhibit on insects, sponsored by Orkin Pest Control.
ORKIN INVESTMENT: $500,000

SPIDERS! (Opened June, 1994) Traveling exhibit on spiders sponsored by Marvel Entertainment, which owns Spiderman.
MARVEL INVESTMENT: $1.2 MILLION

OCEAN PLANET (Opened Apr. 22, 1995) Designed to detail ocean ecology, the eight-month exhibit is sponsored by Times Mirror, Ford Motor, Motorola, and The Discovery Channel. In January, it will begin an 11-city tour ending in 1999.
CORP. INVESTMENT: ABOUT $11 MILLION




AMAZING TRICKS

What some of us will do just to get noticed
An autobiographical essay by Kimberlee Kline

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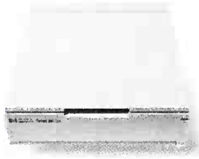
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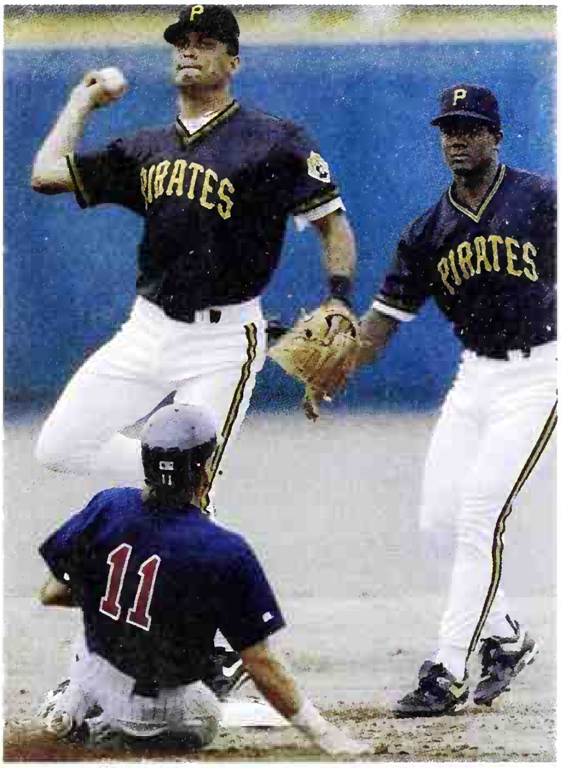
BASEBALL

THE PIRATES' FATE? TAKE A LOOK AT THE STEEL MILLS

The money-losing franchise could be moving south



Back when clubby hometown boys ran Pittsburgh's local banks and metals industries, many were blind to global trends and got pummeled in world markets. The result was a meltdown of jobs in the '70s and '80s. Now more cosmopolitan types run the likes of Alcoa, Mellon, and Westinghouse. They understand numbers, trends, and world markets. But some of them don't much care if their local ball club, the Pittsburgh Pirates, leaves town.

As the Pirates opened their season on Apr. 26, a full-blown spat over the team's future was splitting the city's corporate chieftains and its government. At issue is whether the money-losing Pirates should be shuttered and shipped south, as inefficient mill operations were a decade ago. The alternatives: for the current owners to pour more money into the 112-year-old franchise or find a buyer who will keep it on the banks of the Allegheny.

LOW VOLTAGE. The current crisis goes back to 1985, when the city and a consortium of Pittsburgh-based companies bought the Pirates for $25 million. It was a magnanimous gesture at a time of great pain in the area. The U.S. Steel unit of USX Corp. was shutting down mammoth mills. Westinghouse Electric was downsizing, Gulf Oil had itself on the block, Alcoa and Mellon Bank were axing headquarters jobs. But even as they laid off fans, these companies, in addition to PPG Industries, PNC Corp., Carnegie Mellon University, and three private investors, kept the team going.

Trouble is, the companies viewed running the Pirates as a duty, not an opportunity. The owners were slow to respond to changes in baseball, from negotiating costly stadium lease deals to free agency. The team's stars—among them Barry Bonds and Bobby Bonilla—have long since jumped to richer markets. The recent strike added to the owners' woes by failing to bring, at least for now, the salary cap, revenue sharing, and other relief small-market owners wanted. The Pirates, division winners three years ago, now are a low-budget, low-voltage assortment of rookies and journeymen.

Having lost some $60 million so far, the team's corporate backers want out. But the city and the companies can't agree on a buyer. Sources close to city government say the problem grows from a flap between Pittsburgh's mayor, Tom Murphy, and the chairman of the Pirates, former PPG Industries Chairman Vincent A. Sarni. Murphy wants the owners to sell the club to John J. Rigas, chairman of cable operator Adelphia Communications Corp. in Coudersport, Pa. Rigas, 70, has offered $85 million, enough to pay back the consortium its initial investment plus debt—though barely half the going rate for expansion franchises elsewhere. A passionate Pirate fan, he promises to keep the club in Pittsburgh. "He's made the best offer," says Mayor Murphy.

Enough with grand civic gestures: The corporate owners are ready to walk

But Sarni and the other owners are soliciting offers from far-flung ent preneurs who want to move the c south. For one, Orlando property veloper Norton Herrick has said would pay $125 million for the team

The Orlando Pirates? "Ten years a says City Councilman Daniel S. Col "it would have been unthinkable for owners to consider moving the Pira from Pittsburgh." Not all owners wo support an out-of-town now: PNC Bank Chairm Thomas H. O'Brien vows bank will do "whatever takes" to keep the team Pittsburgh. He has allies Carnegie Mellon Univers and Mellon Bank.

FALSE MOVES? But USX PPG are open to outside b ders, say sources close to gotiations. This may be ruse to stall a sale in ho that the Pirates will fe more in '96. But there see to be a strong antipathy tween Sarni and Murp says one observer, w thinks the best thing for Pirates would be for Sa to get the top job at W Grace & Co., a post he's ing considered for, and lea the baseball negotiatio Murphy insists his relati with Sarni are "cordial." S ni did not return phone ca

Originally, it seemed owners were flirting w other buyers mainly to pr Rigas to sweeten his of But with the strike's e the value of small-mark teams such as the Pira plummeted. Following t strike, Rigas threatened lower his offer, but he end up leaving it intact. Now, says Murp the owners not only must negotiate sale price but divvy up losses this ye that are expected to hit $20 million.

Eventually, Murphy hopes to buil new stadium in a rejuvenated dow town, leaving the 25-year-old Three R ers, an Astroturfed doughnut surrou ed by parking lots, to the NFL's Steele His models are the successful new par in Baltimore and Cleveland, two sma market teams that are now profitab But unless he can coax one more ci gesture from Pittsburgh's corpora elite, the Pirates, like so many oth Rust Belt natives, may well be she ding their industrial-black outfits for t pastel tones of the Sunbelt.

By Stephen Baker in Pittsbur

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– Car and Driver, *February 1995*

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– AutoWeek, *October 13, 1994*

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– Motor Trend, *November 1994*

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– Automobile Magazine, *November 1994*

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– Road & Track, *November 1994*

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BUSINESS SCHOOLS

MBA MADNESS IS BACK

B-school applications hit levels unseen since the '80s

It was crunch time. On Apr. 10, a parade of overnight delivery trucks carted 700-odd last-minute applications to the MBA admissions office at the University of Pennsylvania's Wharton School. "We see FedEx here every day during the admissions season," says Samuel Lundquist, director of MBA admissions. "But on our deadline, we got three different FedEx deliveries alone."

It has been a great year for B-schools—and for the overnight delivery folks who serve them. Applications to BUSINESS WEEK's Top 20 business schools jumped a remarkable 19% this year, creating what likely will become the most competitive admissions year since the roaring '80s. The B-schools at Stanford, Massachusetts Institute of Technology, and Columbia all reported record numbers of applications. Wharton also hit an all-time high—6,137 people were vying for 750 seats.

Admissions officers welcome the surge, but say they are slightly mystified about why it's happening. Some speculate that with job placement for grads of major schools booming, potential students are more willing to leave stable jobs in pursuit of the golden passport. Consulting firms are hiring more MBAs than ever before, and mainstream companies have revived on-campus recruiting efforts. Some deans also believe business schools are picking up would-be law students discouraged by career prospects in the legal field. Indeed, law school applications are down 8.2% from 1994, according to the Law School Admissions Council.

STANFORD: *Only 1 out of every 16 applicants is likely to get accepted*

COMFORTING WORDS. More than anything, though, the startling numbers appear to reflect a stratification among B-schools. Overall, the number of people taking the Graduate Management Admission Test (GMAT) dropped 6% this year. Applications BUSINESS WEEK's second-tier schoo moreover, were just 11%—still i pressive, but w below higher-rank rivals. The applic tion rush at the t 20 could indicate flight to perceiv quality. "I se that our applica are saying: 'If I going to go for it, then I'm going to to the best school I can get into,'" s Ethan Hanabury, associate dean for missions at Columbia Business Scho

Whatever the explanation, many t schools are finding themselves forced turn away candidates they would ha admitted in past years. Stanford, whi historically has turned down 10 of eve 11 applicants, expects to reject 15 every 16 this year. To soothe the dis pointed, Stanford Dean A. Micha Spence expects to spend more time th usual on the phone comforting can dates who didn't get in. Try again ne year, he might well advise, after t FedEx boom is over.

By Lori Bongiorno in New Yo

PERU

THE POT IS BOILING IN PERU

Its booming economy has Wall Street excited. Too excited?

If Peru should ever revise its coat of arms, Wall Street has a suggestion: Replace the vicuña in the upper-left-hand corner with a bull. Even after the Peruvian stock market's rebound from a severe drop sparked by turmoil in Mexico and hostilities with Ecuador, fund managers and analysts say the Peruvian stock market is the place to be. "At 15%, it's my fund's largest weighting," says Joyce Cornell, portfolio manager for Scudder, Stevens & Clark Inc.'s Global Emerging Markets Fund, an offshore fund for institutional investors.

Cornell's enthusiasm for Peru stems from its booming economy. In 1994, real gross domestic product grew by about 12%, and inflation fell from 39% to 15%. "You'll see real profit growth of 50%, and the market is trading at 15 times earnings," says Cornell. "That combination is a steal in any country." The reelection of President Alberto Fujimori is another plus, creating more political stability. Cornell expects 10% GDP growth in 1995 and inflation of about 10%. Other analysts peg GDP growth closer to 5% and inflation at 15%.

STURDY. Of course, investors once rhapsodized about Mexico, too. Observe Peru's share of problems: continued, though reduced, terrorism; tensions with Ecuador; and a growing trade deficit. But the catalyst for Mexico's meltdown—a balance-of-payments crisis—shouldn't shake Peru. "Peru has some foreign exchange stability, with its reserves continually increasing," says Stefano Natella, director of Latin American research at CS First Boston.

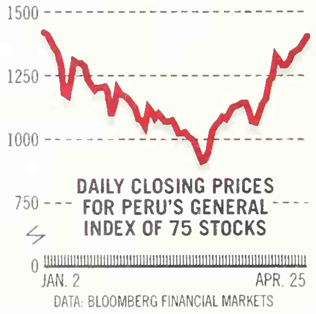
Natella says Peru's main restriction is a thin market. Some 200 stocks are on the exchange, and the top 15 to 20 stocks make up about 90% of its $10 billion-plus market capitalization. But Peru has some sizable companies that Cornell and others describe as blue chips.

Investors ready to take the plunge might consider Minsur, a low-cost tin mi Southern Peru Copper, and Banco Credito, says Miguel Palomino, gene manager of Smith New Court's Pe office. A popular pick: Cerveceria Ba us & Johnston. It has about 85% of t beer market in Peru.

Right now, only one Peruvian Am ican Depositary Receipt is available the New York Stock Exchange—Ban Wiese. For price quotes on any oth Peruvian stock, investors are depende on the quotes obtained by brokers fr market makers in the stocks. But number of mutual funds have positio in Peru. As of Mar. 31, the Merr Lynch Latin America Fund had 4.2 in Peru, up from 3.7 in the previous quart and the Scudder Lat America Fund and t Montgomery Emergi Markets Fund both h about 2% holdings. A ter the crisis in Me co, taking such sm steps into Peru may a more comforta pace for investors.

By Suzanne Wooll in New York, with A riana von Hagen Lima

PERU'S EXCHANGE IS ON A ROLL



DAILY CLOSING PRICES FOR PERU'S GENERAL INDEX OF 75 STOCKS

DATA: BLOOMBERG FINANCIAL MARKETS

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THE INTERNET

LAUGHER CURVE

Did you hear the one about the stand-up economist?

Practitioners of the dismal science are not generally known for humor.

Enter laughing Pasi Kuoppamäki, a mild-mannered Helsinki economist whose specialty is delving into the effects of global warming on Finland's industries. Not a lot of chuckles, right? But Kuoppamäki, 25, is earning a reputation in cyberspace as the king of economics comedy—admittedly not a title for which there is intense competition. He hasn't made it to the Letterman show yet, but his *Jokes about Economists and Economics* page, available on the Internet's World Wide Web, is rapidly gaining a worldwide following.

Kuoppamäki launched his project last fall, shortly after signing on to the Web for the first time and watching the lawyer jokes go by. That prompted him to carve out a niche for economists. (Based at the Research Institute of the Finnish Economy, its Web address is http://www.etla.fi/pkm/joke.html.) To make its point perfectly clear, the page is topped by a picture of Adam Smith. Even the original free-marketer, says Kuoppamäki "would enjoy these jokes."

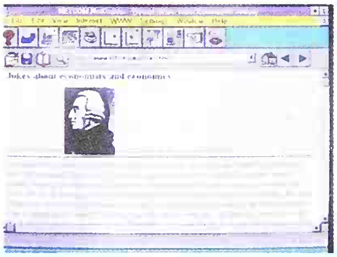
BRIGHT BULB. Every week, the page is read by some 1,000 people, who are drawn to a collection of 60 or so entries ranging from shaggy PhD stories to Henny Youngman-esque one-liners. Sample: "If an economist and an IRS agent were both drowning and you could save only one of them, would you go to lunch or read the paper?" Many of Kuoppamäki's best offerings, however, are variants on the familiar lightbulb theme: "How many Chicago School economists does it take to change a lightbulb? None. If the bulb needed changing, the market would have already done it."

Most of Kuoppamäki's material comes from contributors who send in their stuff by E-mail to the address listed at the bottom of his page (pkm@etla.fi). Other gags come from economist friends and from Kuoppamäki himself, who sifts through the dozens of other compendiums of humor on the Internet. These include lawyer jokes, Pentium jokes, O.J. Simpson jokes, and several collections of the gross and tasteless.

But no one else appears to have singled out economists to pick on. "I really enjoyed it," chuckles Anthony Chan, chief economist at Banc One Investment Advisors Corp. "We're all humble enough to realize that because exogenous forces are constantly changing and we work with incomplete information, our forecasts are almost always going to be off the mark."

Kuoppamäki doesn't devote all of his online time to laughs, though. With Web-surfing now "one of my major hobbies," the economist also maintains several pages that seek to explain his studies of global warming. (He thinks that Finland's thriving forest-products industry is benefiting from climatic moderation.) With a click of the mouse, however, you can jump from these pages to others at Web sites around the world providing more information on global warming. Or you can simply switch back to putdowns of Kuoppamäki and his colleagues in the dismal science. Asks one entry: "Why did God create economists? Answer: In order to make weather forecasters look good."

By William Glasgall on the Internet



Jokes about economists and economics

Keynes Meets Youngman

Some yucks from the World Wide Web economist-jokes page

Q. What do you get when you cross the Godfather with an economist?

A. *An offer you can't understand.*

Q. How many conservative economists does it take to screw in a lightbulb?

A. *None. If the government would just leave it alone, it would screw itself in.*

Q. What's the best way to describe an economist?

A. *Someone who doesn't have the personality to be an accountant.*

BLACK STAR

EXECUTIVE SUITE

MELLON-CHOLY BANKER

Resignations–and an outflo
of funds–rock Boston Co.

First, renegade money managers
out the exits at Mellon Bank Co
Boston Co. subsidiary. Now,
money is heading for the doors.

In one week in late April, 19
managers quit Boston Co.'s high-p
ered Asset Management Inc. unit,
lowing Mellon's refusal to consider t
management buyout offer. In the af
math, investors are pulling some $3
lion of the $26 billion under mana
ment at the unit. Arizona's St
Retirement System already has w
drawn $1 billion; the California Pu
Employees' Retirement System (
PERS), the nation's largest pension fu
says it will take out $800 million. "
firm has been gutted" by the defecti
says a CalPERS spokesman.

"DE MINIMUS." Mellon Vice-Chair
Christopher Condron says the impac
the departures has been "*de minim*
declining to comment on specific a
withdrawals. "Our investment proc
continues to function well," he says.

But the episode already has bec
an expensive embarrassment for
Pittsburgh bank, which paid $1.45 bil
for Boston Co. in 1993. Mellon m
agers have been traveling across
U.S. to soothe worried customers, s
eral of whom have agreed to stay
But "pension investing is a people b
ness, and key people have left," s
pension consultant John M. Dickso
William M. Mercer Inc. "My expe
tion is that a lot of clients will leav

Among the departing executives
the heads of four of the six princ
Asset Management operating gro
and seven of the firm's 14 top st
pickers. Insiders say the resignati
capped two years of stormy relati
between the unit and Mellon executi
centering largely on control and d
sion-making authority. Mellon say
has signed 41 remaining key executi
to employment contracts. On Apr.
meanwhile, it filed suit against for
Asset Management Chairman Desm
J. Heathwood to block him from lau
ing a rival firm. That may slow He
wood's plans—but it likely won't sta
the flow of assets out of Boston Co.

By Geoffrey Smith in Bos

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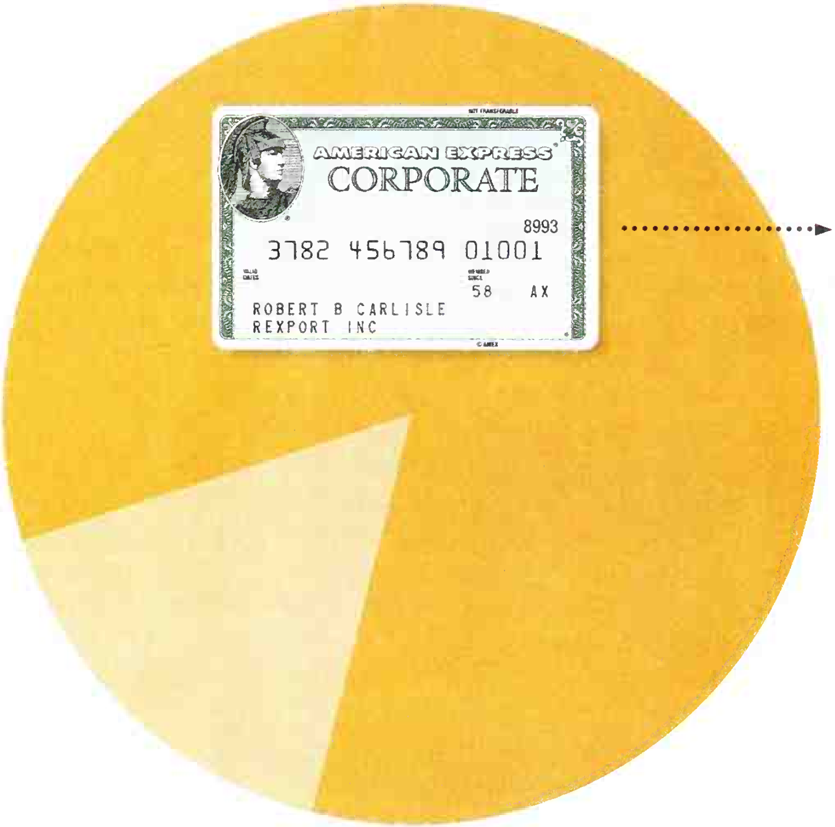
The Choice.



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Source: The *Fortune* 500 as listed by *Fortune* Magazine for 1994. Percentage based on American Express information as of 1/1/95.
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ITED BY KEITH H. HAMMONDS

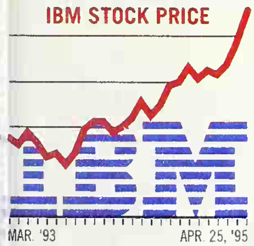
CROSOFT: THERE ES THE JUDGE?

; DISTRICT COURT JUDGE nley Sporkin out of line? refusal in February to rove the government's trust consent decree with rosoft shocked the Justice ɔt. and the software indus- alike. On Apr. 24, though, U.S. Court of Appeals in shington gave a sympa- :ic hearing to the litigants,) argued that Sporkin ex- ded his authority. The rt is likely to decide with- the next two months ether to overturn Spor- s decision. Meanwhile, Mi- soft is awaiting word from tice on its proposed mer- with Intuit. Because of rkin's criticisms, the agen- has been under pressure to block the deal. Justice as early as May 1.

CLOSING BELL

LOU'S PAYDAY

is is when the real money :ks in for Lou Gerstner. For o years, IBM's CEO has had make do on his guaranteed million salary and $1.5 llion annual bonus. Since bruary, though, IBM's stock s soared 24%, lifted by :ord earnings and a flurry analyst upgrades. Action e that does wonders for a y's stock options: Gerst- r's options on 725,000 ares now are worth some 0 million. The 57,956 ares he owns outright are lued at $5.4 million.



DATA: BLOOMBERG FINANCIAL MARKETS

KMART'S DIVIDEND DISCOUNT

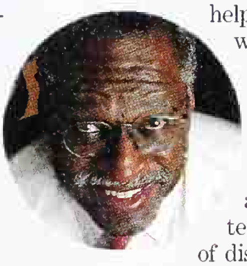
KMART, STRUGGLING WITH tightening margins and facing a first-quarter loss, chopped its dividend for the first time in three decades. The cut, to 12¢ a quarter, from 24¢, will produce annual savings of $220 million. That's the sort of move investors had wanted from former Chairman Joseph Antonini. Now, though, the cut may not be aggressive enough, say analysts. They want the retailer to quickly renovate older, frumpy stores. Donald Perkins, who replaced Antonini on Jan. 17, left open the possibility of another dividend cut if results don't improve. First-quarter earnings, due out on May 15, likely will suffer from an accounting change and from aggressive markdowns.

LABOW WINS A TELEDYNE SEAT

SHAREHOLDER RONALD LABOW won a partial victory at Teledyne's annual meeting on Apr. 26, garnering one seat on the company's board of seven directors. LaBow, whose WHX has offered $1.2 billion to buy Teledyne, told shareholders, "we continue to believe that a combination with WHX is in the best interests of the company," and promised to press for a merger as a director. Some investors speculate that WHX, saddled with an underfunded pension fund, is eyeing Teledyne for its $928 million pension surplus. "LaBow is interested in solving his own pension problems," says Jerome Scritsimier, principle of Cameron Properties, a small shareholder. Teledyne says WHX's current offer is a "nonstarter."

HEADLINER: HOWARD FULLER

A SCHOOL REFORMER DROPS OUT



He had become a leading campaigner for root-and-branch school reform, and had begun turning around a chronically underperforming urban district—efforts that landed him a prominent place in BUSINESS WEEK's Apr. 17 cover story on education. But on Apr. 18, Howard Fuller abruptly resigned as Milwaukee's school superintendent, angrily blaming "powerful forces of the status quo" for impeding further progress.

Fuller's departure brings to at least a half dozen the number of big cities without a superintendent, striking evidence of the challenges facing reform. Fuller won plaudits for implementing accountability measures and recruiting businesses to help redesign Milwaukee's curriculum. But unions chafed over proposals to close failing schools and start charter schools free of district control.

Most educators believe Milwaukee's reforms will continue. But the dustup suggests that such efforts need to be built on broader coalitions that include unions. As for Fuller, he says he prefers to stay in Milwaukee "to fight for families and kids."

By Richard A. Melcher

FADAL ATTRACTION

FADAL ENGINEERING HAS BEEN a symbol of U.S. manufacturing's renaissance, blasting away foreign rivals to become a dominant maker of small verticle machining centers. Now, Fadal is selling out to Giddings & Lewis, the giant of the machine tool industry, for $180 million in cash. The sale could help cut estate and gift taxes for co-owners David and Larry DeCaussin, who want to retire, and will provide the company with capital to launch a new product line.

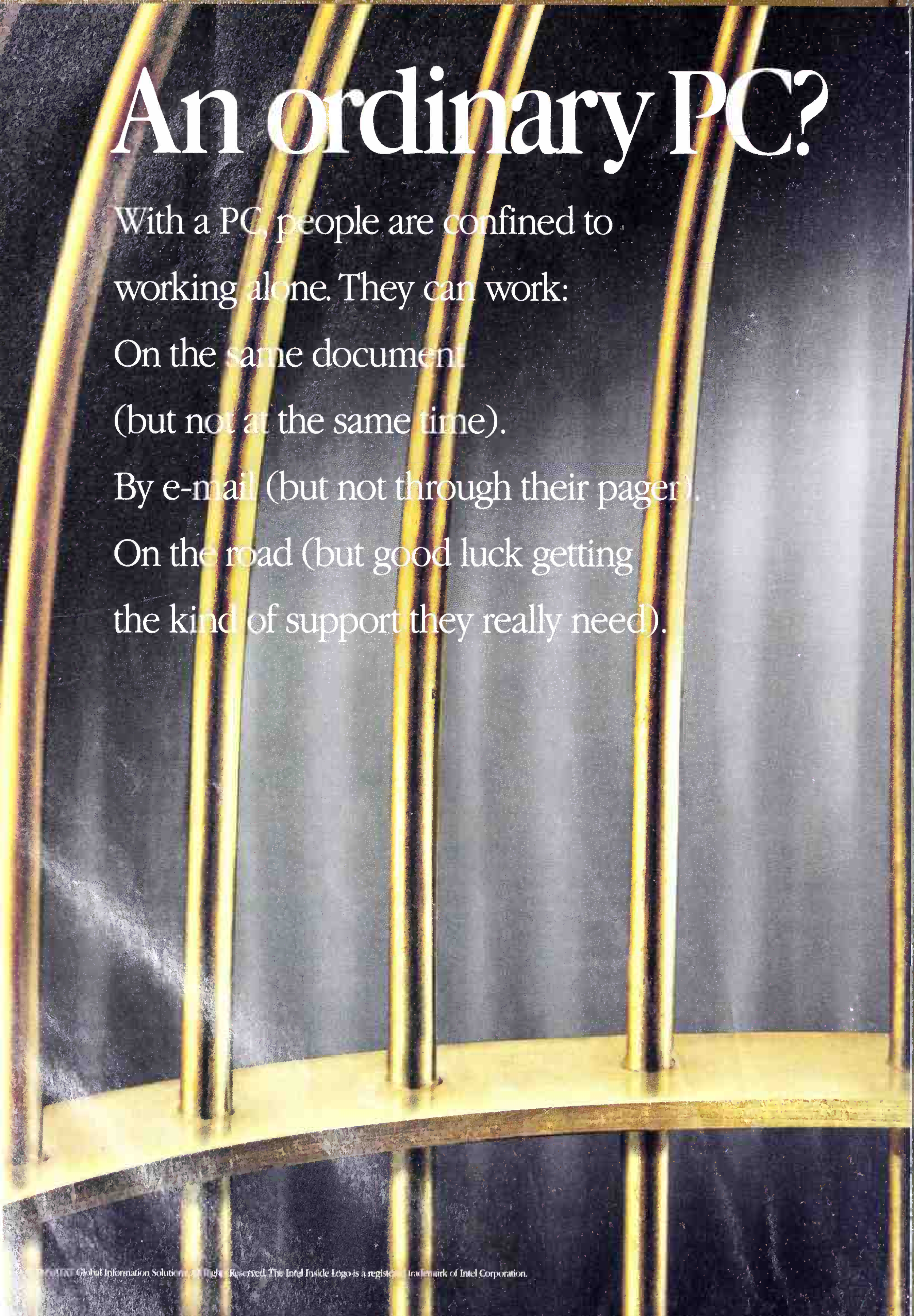
UPS DELIVERS A MESSAGE TO MEXICO

AS IF THE PESO CRISIS WEREN'T enough to keep Mexican officials up at night, here comes United Parcel Service. UPS is steamed that Mexico hasn't granted its subsidiary rights to operate the same-size vehicles as native competitors. It has convinced the U.S. Trade Representative to file a formal complaint against Mexico under the North American Free Trade Agreement. Filed on Apr. 25, the complaint is the first of its kind. Under NAFTA rules, the two sides have 30 days to try to resolve the dispute. After that, trade experts will adjudicate. UPS contends Mexico's actions threaten its $120 million investment in the country.

ET CETERA . . .

- Pratt & Whitney was charged with diverting U.S. aid to a secret Israeli fund.
- Vencor will buy far larger Hillhaven, a nursing home company, for $1.4 billion.
- Metropolitan Life and New England Mutual Life are weighing a possible merger.
- Baseball's Florida Marlins opened the season with a salute to fans. The fans booed.

PHOTOGRAPH BY JAMES SCHNEPF; GRAPHICS BY ALBERTO MENA/BW



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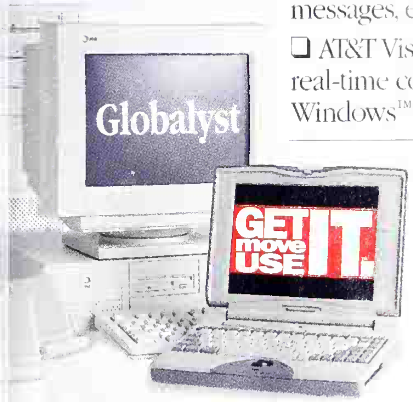

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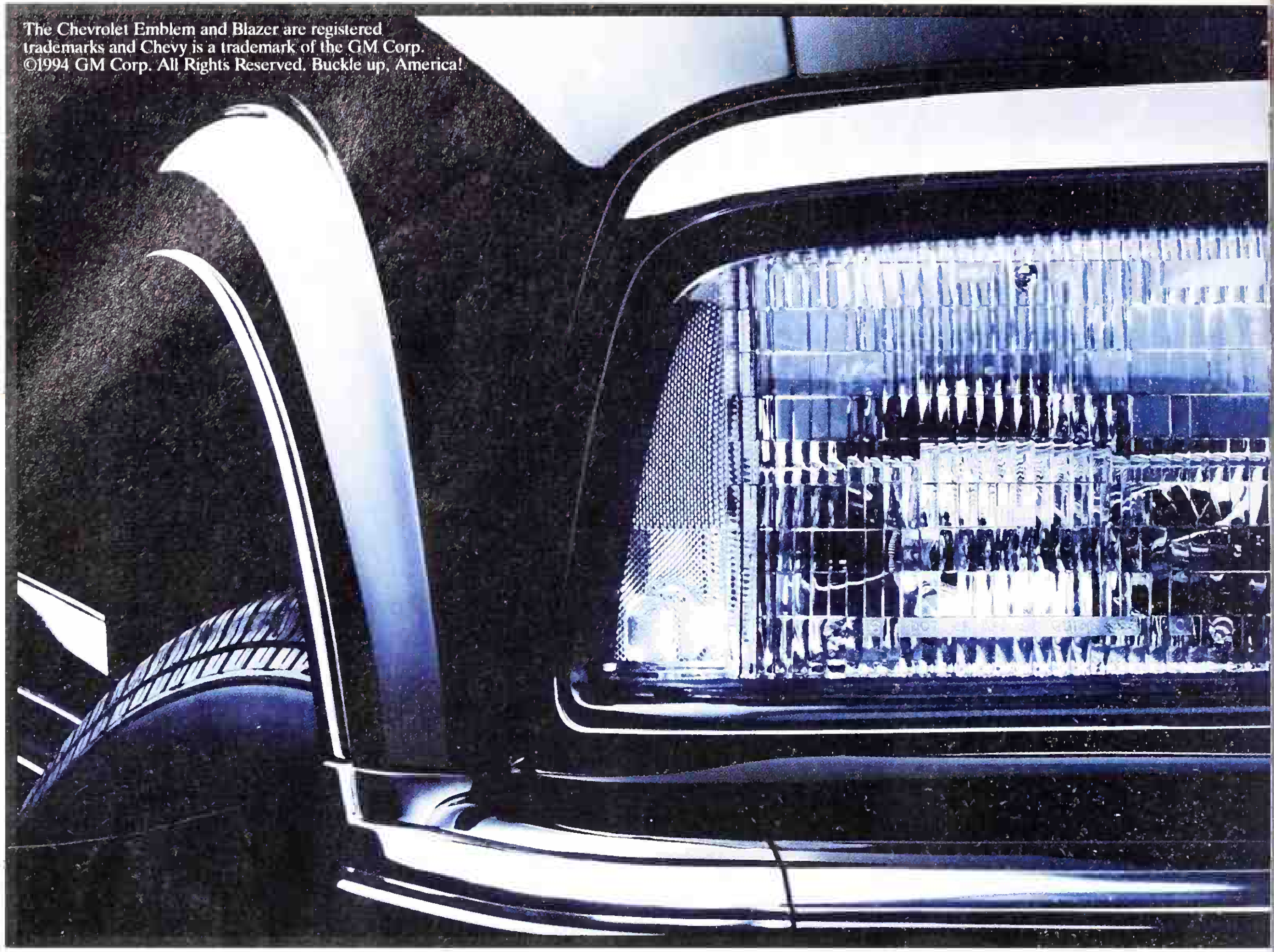

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ITED BY OWEN ULLMANN

N THE WAKE OF OKLAHOMA CITY, NE NATION—MORE INDIVISIBLE

all it a hopeful consequence of the horror in Oklahoma City. The explosion that killed and maimed hundreds in the Alfred P. Murrah Federal Building could actually ve a cooling effect on the white-hot rhetoric that has en- lfed U.S. political life. Indeed, the tragedy is shaping up as arity: an act of violence that draws people together.

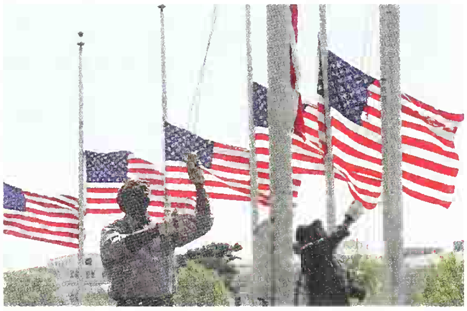
Not since the gulf war has an event instilled Americans th such a sense of communal identity. And any rush toward e political center provides President Clinton with an oppor- nity to reassert leadership over a more sober public dia- gue about the future. "The country wants something other an the hard Right and the discredited ft," says Al From, president of the ntrist Democratic Leadership Council. his bombing will reinforce that."

THE DEFENSIVE. That's a switch. nce last fall, congressional Republi- ns have been setting the agenda with otional anti-government appeals and sues that polarize voters—curbs in verty programs, challenges to affirma- ve action, calls for immigration con- ols, and an overhaul of welfare.

Now, the bombing has thrown right- ng radio talk-show hosts and their nservative allies in Congress on the defensive. House eaker Newt Gingrich (R-Ga.) was stunned by suggestions at the GOP's government-bashing may have fanned the mes of extremists like those who are believed to have at- cked the federal building. And hard-edge GOP Presidential pirants such as Representative Robert K. Dornan of Califor- a and Senator Phil Gramm of Texas may feel pressure to ne down their strident attacks on government. "The core of e electorate has decided this isn't the way the nation ould go," says former Democratic Presidential contender ul E. Tsongas.

That shift is working to Clinton's advantage. Though the President has been a polarizing figure himself, his recent deft performance as national healer has boosted his popularity. For the first time in 11 months, Clinton's approval ratings have topped 50%—reaching 52%, according to an Apr. 21-23 USA Today/CNN poll. "Clinton has been touching on the moral high notes in a powerful way," explains Rutgers University political scientist Benjamin R. Barber. "He's acting as executive pastor to the American flock in a time of crisis."

Another possible beneficiary: GOP moderates, who now can cool the government-is-the-problem rhetoric of the party's populist and religious right wings. Figures one Clintonite: "Some of the most conservative Republican members of the House, especially the freshmen class, could be marginalized, opening up space for GOP moderates calling for civility and lowered voices."



HALF MAST *at the Washington Monument*

AFP PHO

Still, many Republicans believe public revulsion with anti-government terrorism won't alter voters' broad support for lower taxes, less spending, and fewer federal regulations. "It may change the tone of the political debate, but not the substance," says Republican strategist William Kristol. "The Republicans will bend over backward to be civil, but aside from a repeal of the assault-weapon ban, I don't see any backing off."

Perhaps. But U.S. acts of terrorism, rare as they are, can shake up political dynamics. Bombings by student radicals helped galvanize the electorate behind Richard M. Nixon's 1972 reelection landslide. And recent violence at abortion clinics has dampened moves to ban abortion. So while it's a liberal fantasy to think that the tragedy in Oklahoma City will stop the Republican juggernaut, for the moment at least, the grisly bombing has succeeded in doing something that neither Clinton nor the GOP has done—tone down the rhetoric.

By Susan B. Garland and Douglas Harbrecht

CAPITAL WRAPUP

ODE IN CONFLICT

►A bipartisan bill creating a code of conduct for U.S. companies in China s emerging as tougher than expected. t would bar plant visits by China's military and block political indoctrination on premises. Businesses that don't comply would lose financial guarantees from the Overseas Private Investment Corp. Representative Tom Lantos (D-Calif.), a human-rights activist, and powerful House Rules Committee Chairman Gerald B. Solomon (R-N.Y.) are behind the bill.

SENIOR DOLE

►Democrats who think Bob Dole is too old to be elected President better think again. EPIC-MRA and Mitchell Communications, independent Michigan-based pollsters, pitted President Clinton against the Senate Republican Leader in a 1996 preference contest. The 1,000 respondents nationwide favored Dole by 50%-44% in the Apr. 19-23 poll. Then the registered voters were told that Dole is 71 and would be older than Ronald Reagan was when elected President. Dole still won, 49%-45%. Seven out of 10 said his age didn't matter.

FOR YOUR EYES BARELY

►Senate Banking Committee Chairman Alfonse D'Amato (R-N.Y.) slammed Treasury for stonewalling a request last winter for internal documents on the handling of the Mexican peso crisis. But Treasury claims it couldn't comply quickly: None of D'Amato's committee staffers had security clearances. A few weeks later the staffers got clearances—and hundreds of pages of sensitive material.

THAT SINKING FEELING IN JAPAN

A painful wave of deflation is restructuring the economy

With Japanese real estate prices falling, Toru Takano recently snagged a great bargain: For $330,000—a third of what it would have cost during the booming 1980s—Takano, 33, and his wife, Kaori, 30, bought a three-room house in the Tokyo suburb of Tokorozawa, a 60-minute commute from his job as a salesman at a maker of electronic parts. But is Takano celebrating his good fortune? Anything but.

As the yen spirals and competition from cheaper offshore manufacturers intensifies, Takano's company is being forced to slash prices to keep from losing sales altogether, and he sees no relief in sight. "I don't think the economy is going to get much better," he says.

Takano isn't the only one fretting. Just eight months ago, the Tokyo stock market was rebounding, and it appeared that Japan had emerged from its longest slump since the end of World War II. Then came the Kobe earthquake, followed by the financial shock of the runaway yen (chart, page 54). Now, hopes for an economic upswing appear to be running out despite $546 billion in emergency government spending since 1992.

It's not just land and stocks that are falling. From machine tools to beer, goods prices across the economy are declining. Profits are plummeting. Even the cost of a golf-club membership is

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How Deflation Affects Japan

IT LOWERS PRICES FOR CONSUMERS . . .

- ▶NEC has slashed prices on its PC-9800 series by up to 26%, to defend its 50% share of the personal-computer market against U.S. rivals such as Compaq, Apple, and Dell.
- ▶Chain stores are selling furniture imported from American retailers—and downsized for Japanese households—at a big discount over domestic brands.
- ▶Beer distributors stoc Kirin beer produced in Hong Kong and other countries. The reexport beer costs about $46 a vs. $61 for most Japane brews.

y down. Joining the exclusive Koga- Country Club runs about 100 million n ($1.2 million)—less than a quarter much as in 1989, the height of the ble economy.

The key question now is whether verful bureaucrats at the Ministry of nance and the Bank of Japan really nt to pump more money into the nomy to halt deflation. To be sure, reaucrats bear some of the blame for n shock, or *endaka*, by balking at shing through wide-ranging programs deregulate and open the Japanese nomy. But given this reluctance, as ll as their distaste for spending huge v amounts on pump-priming, it may that a strong yen and declining prices will be the bureaucrats' only choice to trigger the kind of radical corporate restructuring Japan needs.

Deflation is forcing Japanese manufacturing and the inefficient distribution system to streamline, a goal most bureaucrats endorse even though it could exacerbate unemployment. Deflation will make homes more affordable and capital spending cheaper. It will also help bring domestic prices more in line with those in other countries—an important plus as the current price gap becomes a potent political issue. Perhaps this explains why decision-makers don't seem rattled by the Darwinian shakeout in corporate Japan that deflation is causing. "The strong yen is certainly strong medicine," says economist William Sterling of Merrill Lynch & Co. But after the excesses of the 1980s, he adds, perhaps "what Japan really needs is a good crisis" to shock it back onto the path of long-term, stable growth.

In a system that was always rigged to favor producers over consumers, Japanese industrial giants were rarely threatened by such shocks. They would simply deploy cash garnered from high prices at home to keep prices low and expand their reach abroad. That's one big reason the cost of living in Japan is roughly twice that of the U.S.

But now that high domestic prices and profits are waning, companies are driving down costs by consolidating at home, fleeing offshore, and shrinking bloated product lines. As a result of these brutal pressures, private economists believe Japan will be lucky to see the gross domestic product grow even a half of a percentage point in 1995—the nation's fourth straight year of stagnation.

DICEY OUTLOOK. After GDP actually shrank at a 3.4% annual rate in the fiscal fourth quarter that ended Mar. 31, even the Bank of Japan, which earlier had been sanguine about the economic outlook, was forced to suggest that the recovery looked dicey. That came as bad news to Ministry of Finance officials, who need more revenues to pay for stimulus programs and to finance the needs of a graying populace. It's also worrying Asian allies that are currently thriving on rising sales to Japan.

Indeed, fears are rising that Japan's appetite for foreign goods will diminish just as the U.S. economy is beginning to cool and Europe's recovery reaches its peak (page 35). That could spell tougher times for the global economy. World growth is already expected to slow to 2.4% next year, after reaching 2.7% in 1995, estimates Deutsche Bank Research. But a steep Japanese slump could worsen the global slowdown.

Economist Jennifer Feldkamp Decker of DRI/McGraw-Hill thinks that in the absence of bold action to deregulate the economy, open the country to more imports, cut its $127 billion trade surplus, and revitalize growth, Japan could face an even higher yen and more stagnation. In that case, she estimates the economy could expand as little as 1.3% annually for the next five years. Adds one high-ranking Western official: "The last thing the world needs is one of the major economies looking like it's going into deflation."

Yet deflation is what's happening. There's even a special term for it: *kakaku hakai*, or "price destruction." You

APPLE, ANYONE?

With imported PCs cheap at Tokyo's electronics bazaar, U.S. computer makers have captured some 30% of Japan's $9 billion market

WATCH THE BIRDIE

These days, golfers can pick up memberships at Japan's exclusive country clubs for less than 25% their cost in the torrid '80s

PETER GINTER/THE STOCK MARKET

. . . BUT SQUEEZES MANUFACTURERS AND BANKS

any retailers are ng color TVs, VCRs, stereos for 10% to below their "sug- ed manufacturer's e"—and swallowing difference.

▶ The rampaging yen and falling land prices are forcing companies to sell off land holdings at bargain prices to shore up their earnings and balance sheets.

▶ Falling share prices are forcing Japanese brokerages and banks to take big write-offs on their portfolios, crimping their ability to pay off bad debts.

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SEEING RED

Organized labor in Japan is fuming over the yen's continued ascent, which has led to job losses and company relocations

certainly see that in computers. Once unchallenged at home, the Japanese industry's clout is being undercut by cheap imports. In Tokyo's sprawling electronics bazaar at Akihabara, Compaq and Apple PCs can be had for 20% to 40% less than comparable Japanese brands. And with U.S. rivals grabbing 30% of Japan's $9 billion market last year, NEC Corp. was forced to slash prices by 20% on one line of PCs.

It's much the same story for more mundane consumer items. Sumitomo Corp. is importing living- and dining-room sets from such U.S. companies as Thomasville Furniture and Hickory Hill Furniture and selling them through Japan's biggest furniture retailer, Otsuka Kagu. This year, Sumitomo expects to import $18 million worth, 20% more than in 1994. On top of that, the company is bringing in $60 million worth of cut-rate sports equipment, glassware, and leather goods. And some independent distributors have started buying Kirin beer made in Hong Kong and shipping it back to Japan. The imported stuff undercuts domestically brewed Kirin by one-third.

Deflation has acquired such momentum that Salomon Brothers Inc. economist Robert A. Feldman expects consumer prices will fall 0.5% annually over the next two years. That would be something Japan hasn't seen since the years following World War II. In fact, price destruction represents "a structural change that will continue through the end of the century," says Sanwa Research Institute economist Keisuke Iwasaki. Although lower prices are good for consumers, such a lengthy drop in prices could spawn a vicious cycle of lower domestic consumer spending, a higher yen, and even greater pressure on prices, profits, and the battered financial system, Western economists warn.

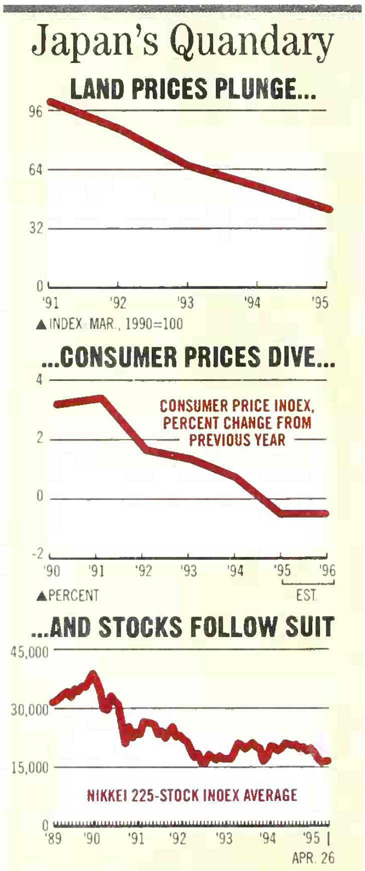
UNCONCERNED. Despite such gloomy forecasts, the coalition government of Prime Minister Tomiichi Murayama has so far mounted a relatively modest response. On Apr. 14, the government unveiled its latest emergency spending package. Urging companies to buy back stock to support share prices and giving special attention to helping smaller companies hit by *endaka*, the plan may come up with $12 billion in aid.

Most economists have scorned the proposal as inadequate. And while market watchers say that some Bank of Japan researchers fear deflation will spin out of control, hammer down land prices even further, and wreak havoc with ailing banks, the prevailing view is still that deflation is not yet a big concern. That's one reason why the central bank waited months before cutting its discount rate by 75 basis points, to 1%, on the day Murayama announced his economic program. Some critics believe this cautious policy is only heightening deflationary pressures. To keep interest rates from falling below its target, for example, the bank has been siphoning massive amounts of liquidity from the Japanese banking system. With money growth barely budging, real long-term interest rates now may be a punishingly high 5%—significantly above those in the U.S.

The Bank of Japan seems blithely unconcerned about what its strategy is doing to financial markets. For example, the slumping Nikkei stock average—off 56% from its 1989 peak—is pummeling banks' and insurers' portfolios. On Apr. 24 alone, 11 Japanese commercial banks disclosed they face $7.4 billion in write-offs because the value of their stock holdings has fallen below what's stated on their books. With commercial property prices down more than 50% since 1991, Japanese companies last year sold an astounding 23.7 million square feet of property to raise cash. The amount of land sold was up 19.3% fro 1993, according to real estate da service Tokyo Shoko Researc The sales netted only $7.7 billic down 9.7% from the year befor

While financiers are selling a sets, manufacturers are hunke ing down for survival. Take Maz Motor Corp., which derives 60 of its sales from exports. Stu by the strong yen and langu U.S. car and minivan sales, it nounced on Apr. 26 that it wou slash output at its Japanese plar by 22% this quarter and take ne steps to reduce costs. Even m sweeping reductions are hitti metals producers. Mitsubishi Mat rials Corp., hard hit by cheap zinc in ports, plans to close a smelter in Aki Prefecture that has been losing $1.2 m lion a year. Sumitomo Metal Industri Ltd., meanwhile, is accelerating job cu at several steel plants to save $700 m lion a year. Both companies will assi idled workers to other companies.

TAKING THE PLUNGE. Such actions are clear sign that the Japanese are allo ing change to creep into their syste How far and how fast it will go is t key question. Critics argue that Jap must undertake sweeping and imme ate steps to open its trading syste deregulate systematically—or face deep crisis. But so far, the governme is resisting sudden moves and seems be acceding to t power of yen-bred d flation to gradually r shape Japan.



DATA: NIHON FUDOSAN KENKYUSHO, BLOOMBERG FINANCIAL MARKETS, SALOMON BROTHERS INC

In the absence wide-ranging macroe onomic-policy moves huge deregulati schemes, regulato will rely on Japane corporations and fina cial institutions to fo tify themselves again deflation and yen sho as quickly as they ca For now, Japan is d ciding to put up wi yen strength. Whi that leaves the cou try staring at the lik lihood of a continu high yen, falling pri es, and even recessio it's a risk policymake seem willing to tak If that means slow growth for the rest the world, so be it.

By Brian Bremn with Robert Neff, Tokyo and Willia Glasgall and Jo Warner in New York

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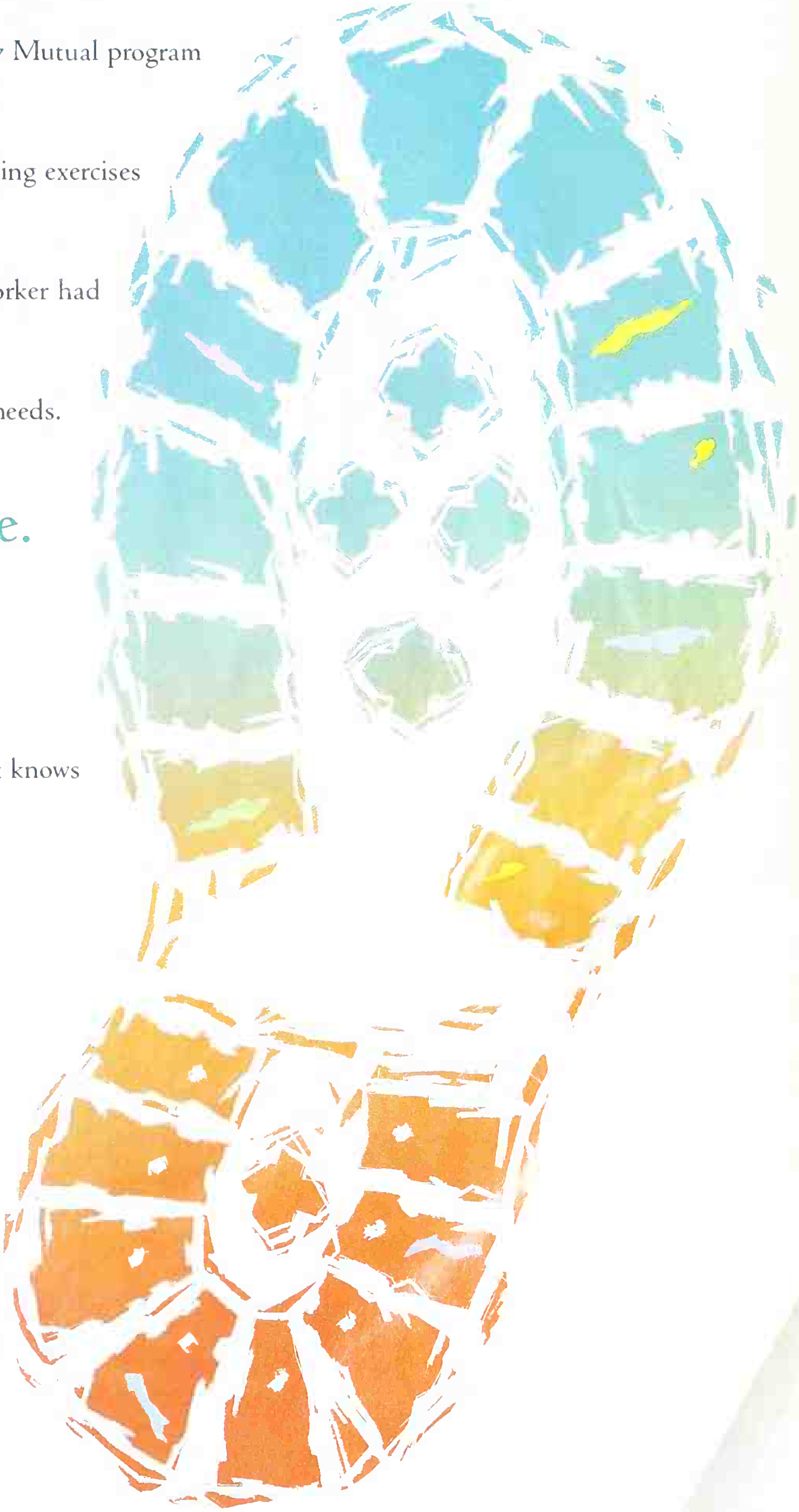

RUNOFF: *Jospin led the first round, but Chirac will probably beat him*

FRANCE

CAN ANYONE FIX THIS COUNTRY?

The next President must overhaul France's "mixed" system

As an aimless teenager, Lionel Basset was shunted into a French metalworking school. He found it monumentally boring and dropped out at age 17. Now 21, he has worked just a few weeks at odd jobs since then. Most days, Basset hangs out in cafes with unemployed friends or roams the streets of Saint-Denis, a grimy Paris suburb. He is angry. "I was very badly guided in school," he says, leaning against a graffiti-covered wall. "Nobody in France cares about the young."

On Apr. 23, Basset voted in the first round of France's presidential elections. His candidate: Socialist Lionel Jospin—"the only one who might change things," he says. Jospin stunned pollsters by coming in first among nine candidates, ahead of the favored Gaullist conservative, Jacques Chirac. Yet four conservative candidates jointly won 60% of the vote. So barring an upset—always possible in this surprising campaign—second-place Chirac should win a May 7 runoff to succeed Socialist President François Mitterrand.

Chirac—or Jospin—will be taking the reins at a critical moment for France and for Europe. After 14 years under Mitterrand, France has lost its way. It is tormented by political and business scandals. State deficits have soared. The French can't decide what shape they want for a united Europe. Worst of all, the economy, despite some impressive strengths, cannot create enough jobs. Unemployment of 12.3%—an alarming 25% for those under age 25—is a time bomb. It seems the old economic and political ideologies from both left and right no longer have the answers.

Many economists and business leaders know what France needs: a drastic overhaul of inflexible labor laws, an end to government control of large corporations, a vibrant private pension syste and a taming of a free-spending sta sector that, in the words of economi Christian Saint-Etienne, has become "monster, a national catastrophe." Yet France's new leader can't implement ra ical measures, his seven-year term m mark a dramatic decline in the pro country's economic status and in its i fluence in the world.

> **NEW ERA?** Inflexible labor laws, state-run companies, a cushy pension system—all should go, and soon

SHORTER WORKWEEK? Investors fe that Chirac and Jospin are proposin remedies that could sink France furth into a financial hole. To encourage hirin Chirac proposes a cut in employers' one ous payroll taxes. Most think this is good idea. But it would cost the go ernment badly needed revenue, ar Chirac has not proposed any spendin cuts to compensate. Jospin, a tradition Socialist, envisions a massive publi works program and a two-hour cut the workweek, to 37 hours, that he say would create 400,000 jobs.

Either approach may lead to highe deficits and a weaker franc. That wou be a huge setback after eight years hard-won monetary stability that hav lowered inflation to under 2%. France deficit still reached 5.6% of gross dome tic product last year, far above the 3 limit required for European monetar union by decade's end. A French failur to qualify for monetary union could kill single European currency and be a majc reversal for tighter European union.

Such concerns led traders to hamme down the franc in late April. In respons Chirac vowed allegiance to *le franc fort*—

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5 year	12.02%
10 year	13.61%

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Average Annual Total Returns*	
Fidelity Blue Chip Growth Fund	
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5 year	17.68%
Life of Fund	18.35%

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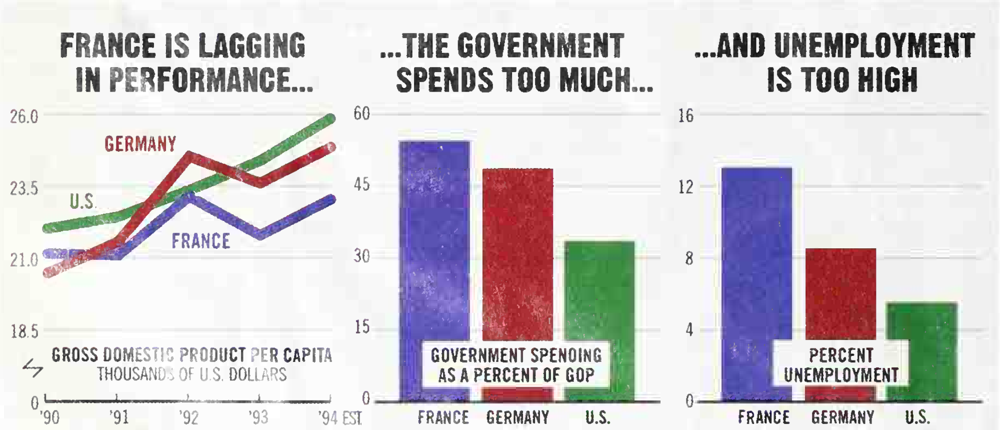
a strong franc. Yet there are doubters. A weaker franc is inevitable, says Steven H. Nagourney, chief global strategist for Lehman Brothers Inc. "If the new President doesn't devalue," he says, "the market will do it for him."

While worrying about the markets' reaction, the new President faces the prospect of social unrest if he makes major cuts in pension and health-care benefits. Likewise, France's homeless and long-term unemployed—dubbed *les exclus*—could become an explosive force. Like Lionel Basset, many are young and live in working-class ghettos, and they may soon vent their rage.

JOBLESS: *"Nobody...cares about the young," says Basset*

FOOLISH STAKES. Plenty of French industrialists blame excessive state regulation for locking the unemployed out of the job market. "There are too many rules in France," complains Peugeot Chairman Jacques Calvet in his small, sober office near the Arc de Triomphe. Take tiremaker Michelin. It's trying to boost output of truck tires, but it's stymied by a ban on running French factories more than five days a week. After a long effort, Michelin has won government permission to operate an automated plant nonstop—for one year. But its four conventional factories must close on weekends, to protect workers' leisure.



DATA: CREDIT LYONNAIS, ORGANIZATION FOR ECONOMIC COOPERATION & DEVELOPMENT, DRI/McGRAW-HILL, BW EST.

The intrusive state power that hobbles Michelin and other companies is wielded not just by politicians but by a corps of elite bureaucrats who run many top companies. This tradition saddles industry with inexperienced managers, yet mercifully for France, this elitist system may be cracking. The biggest fissure came from the recent $27 billion bailout of state-owned Crédit Lyonnais. Europe's biggest bank almost collapsed after taking foolish stakes in French companies at government behest and making risky loans that smacked of political favoritism. André Lévy-Lang, management board chairman of Compagnie Financière de Paribas says this debacle has knocked the technocrats off their pedestal: "These errors have won us 10 years in changing mind-sets."

True, but other state practices remain deeply entrenched. The government has poured billions in state funds into such sinkholes as computer maker Groupe Bull and Air France, with nothing to show for the effort but companies that still need wrenching restructuring. Former Prime Minister Raymond Barre says the French penchant for postponing the inevitable reminds him of a famous countess waiting at the Revolutionary guillotine. She implored her executioner: "Please, *monsieur*, just one more minute."

Yet beneath its problems, the world's fourth-largest economy has a lot going for it. It has Europe's lowest inflation, good productivity, a positive trade balance after 15 years in the red, and lower labor costs than German Mercedes-Benz recent picked France over Germa for its newest car factory. believe very much in Fren productivity and reliability says Mercedes' CEO, Helm Werner.

Those strengths flow fro a massive industrial restru turing in the 1980s, when t French rightly feared th competition in Europe's sing market could destroy the Companies automated fact ries, and the government a lowed big layoffs for the fir time. Renault's biggest pla now makes the same numb of cars with 8,302 employees as it to 22,700 workers to build 20 years ago.

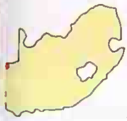
HIRING AND FIRING. Yet there's a fragi side to this success. France's forte commodity products—aluminum, stee cement, glass—rather than high valu added items. French weakness in hig tech is another worry. It flows part from a shortage of entrepreneurs, a therefore of midsize companies along th lines of Germany's *Mittelstand*. Criti fault cerebral French education f putting Proust above profit. Anoth cause is the lack of private pension fund which in the U.S. have pr vided billions in equity capit for established companies a startups.

The biggest French failin however, is unemploymen Deregulating the process hiring and firing could wonders to create jobs. "Th difficulty eliminating jo makes you hesitate to hire says Peugeot's Calvet. A com pany that wants to reduce i workforce usually needs go ernment permission and mu give around 18 months' se erance pay. Water bottl Perrier tried to cut 600 jo recently to boost efficiency. Bureaucra said *non*.

France made an important decision the 1980s: to open its economic borde to Europe and the world. So far, howe er, the French can't quite accept th ramifications of that move. France's ne leader must finish the overhaul of h country's outdated economic approac With luck, the disillusioned youths at th gates of Paris will allow him time to that.

By Stewart Toy, with Gail Edmonds and Mia Trinephi, in Paris and Jo Templeman in Bonn

[illegible] BY ERIC BOUVET, CHART BY ALAN BASEDEN



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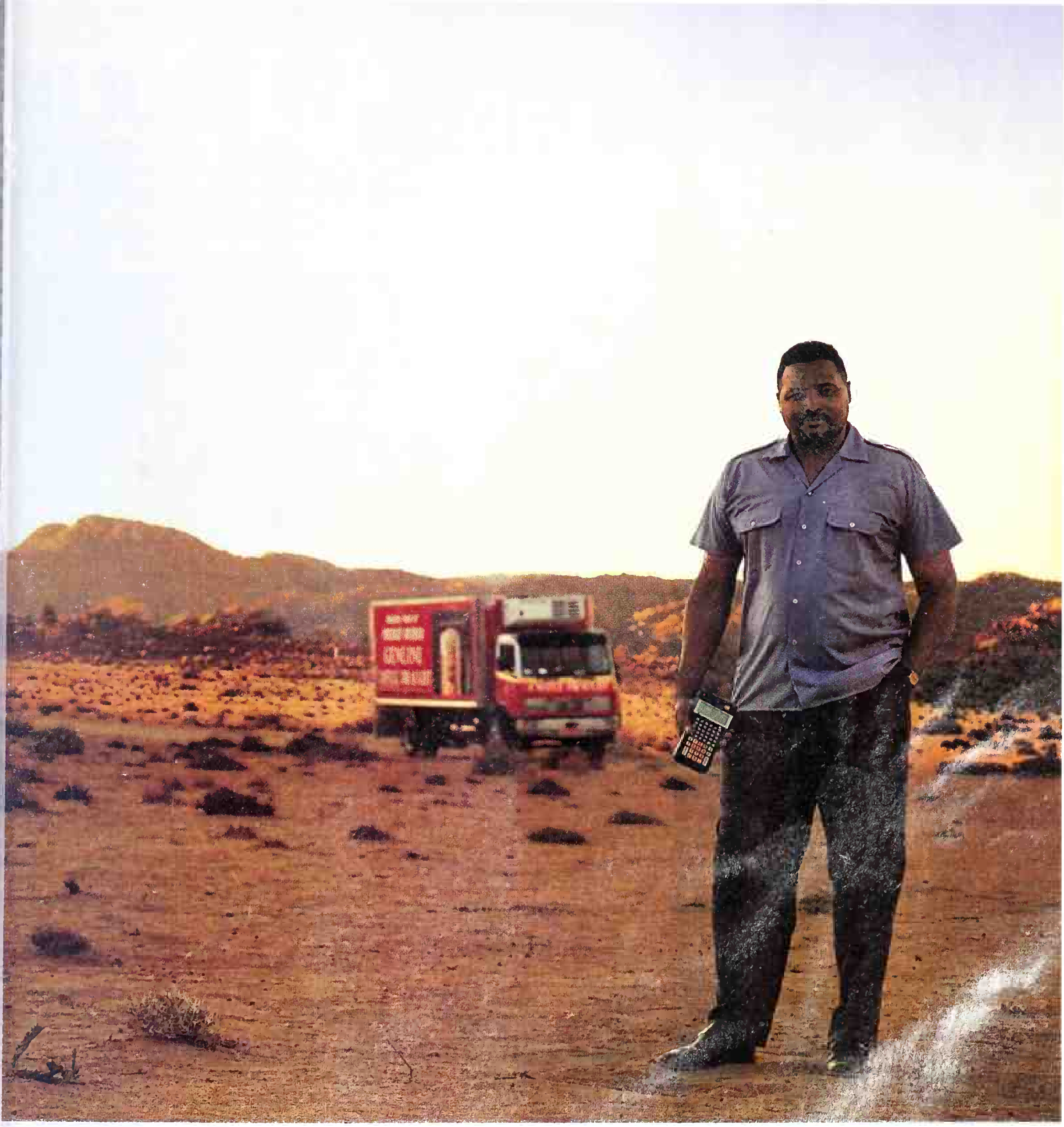

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IS IT TIME FOR CLINTON TO GET TOUGH WITH YELTSIN?

On Moscow's Poklonnaya Gora (Victory Hill), workers have labored feverishly for weeks, planting flowers and erecting reviewing stands for the May 9 festivities commemorating the 50th anniversary of Germany's defeat. Late-model tanks will clank by, as Russian troops march past President Clinton and other dignitaries representing the World War II allies.

Clinton should hardly be in a celebratory mood, though. His embrace of embattled Russian President Boris Yeltsin isn't working quite the way the Americans want it to. The relationship hatched during the feel-good era following the Soviet collapse is in trouble: Many liberals in Yeltsin's foreign-policy inner circle have been replaced. So Russia is becoming more aggressive at home and abroad, leading to a growing list of U.S.-Russian disputes.

AFTER THE FALL

Mass graves of those killed during Russia's bloody suppression of breakaway Chechnya

Indeed, the martial nature of the celebration will remind onlookers of Russia's belligerence, especially its suppression of the breakaway republic of Chechnya. An estimated 24,000 people have been killed there—making it far bloodier than either the 1956 crackdown on Hungary or the 1968 Czech invasion. Witnesses and human-rights activists say Interior Ministry troops used drugs to make themselves fiercer before attacking the Chechen village of Samashki in mid-April. They are accused of machine-gunning about 250 villagers, including women and children. The military denies the atrocity charges. It's unclear whether a new ceasefire will take hold.

NO ON NATO. Chechnya is only one cause for concern. Although the Russians have allowed the destruction of many nuclear and conventional weapons, treaties that were so warmly hailed when the cold war ended are coming undone. For instance, Defense Minister Pavel S. Grachev says Russia is no longer bound by the 1990 Conventional Forces in Europe treaty that limits troop deployment. He wants to shift forces to hot spots such as Tajikistan, on the Ukrainian border, as well as Chechnya and Georgia. Moscow's opposition to NATO entry for countries such as Poland and the Czech Republic has become more strident.

What's more, taking a chapter out of hard-liner Vladimir V. Zhirinovsky's book, the Yeltsin government is talking about military intervention wherever it sees abuses against ethnic Russians in former Soviet republics. That's certain to stir up tension in regions such as the Baltics and Crimea, where a Russian majority wants to secede from Ukrai

The Clinton Administration has stepped up its criticism Yeltsin's tough moves but isn't considering punitive measur A senior official says the Russians haven't crossed a li that would make Clinton want to jeopardize relations. Was ington continues to believe it's better to maintain the relati ship—in hopes that economic reform will stay on cours Russia's economy is, in fact, improving and showing signs responding to such Western prescriptions as greater moneta discipline and privatization. The Americans hope they will able over time to affect Russian behavior in other sectors well. "We simply can't dis gage. The stakes are t high," says the official.

Even the Chechen fias in this view, harbors seeds hope. "The outpouring of cr icism and very strong revu sion to it internally and ou side haven't solved t Chechnya problem but m point people to the fact th that is not an acceptab way" to resolve troubleso issues, says a senior Sta Dept. official.

But the Russians' extre measures in Chechnya a the scale on which tough tions are threatened els where lead many Russ watchers to conclude that Washington's strategy of patient gagement is about to undergo its most severe test. Clint will probably get nowhere even on such core issues as Ru sia's proposed $1 billion sale of nuclear reactors to Iran.

The Russians also seem to have convinced themselv that they are entitled to Western financial aid without a pol ical price. "Russia will never ever bow to arbitrary politic pressure—not even to please the U.S.," says Russian Forei Minister Andrei V. Kozyrev. Critics say Clinton may have e couraged such thinking by excusing Russian excesses and ing too accommodating on key issues. "Too often, they a what the Russians would accept rather than what the U. really needs to do," says Dimitri K. Simes, president of t Nixon Center for Peace & Freedom in Washington.

Simes points out that Russia is much weaker than t old Soviet Union and that its need for Western aid and i vestment should give the U.S. "tremendous leverage." T May summit ought to provide an opportunity to start usi that clout, he says. But getting the right message acro won't be easy. If Clinton is too tough, he'll look as if he's spo ing the celebration. If he takes a Mr. Nice Guy approac however, he'll seem to be endorsing the Kremlin's tough ne tack. And that has the whiff of appeasement.

By Peter Galuszka in Moscow and Amy Borrus Washington

AW FIRMS

SILICON VALLEY'S OTHER POWER ELITE

Wilson Sonsini's coziness with the cream of high tech is its strength–and a sore point

WILSON SONSINI GOOD

BOLD EAGLES: *Sonsini's partners forge business links other firms tend to shy away from*

JAMIE TANAKA

When Apple Computer Inc. went public back in 1980, they were there. When Novell Inc. merged with WordPerfect orp., they were at the bargaining ta-e. And when the Justice Dept. and icrosoft Corp. battled on Apr. 24 to ave their controversial antitrust deal surrected, they were at the center of e storm. The lawyers at Wilson, Son-ni, Goodrich & Rosati have been so illful at riding the wave of the most namic U.S. industry that they are as ot as their cutting-edge clientele. "If ilson Sonsini was a stock, I'd invest in ," says Paul Lippe, legal counsel at ftware designer Synopsys Inc.

That a law firm could inspire such nthusiasm shows that Wilson Sonsini as little in common with the legal Es-ablishment. Mirroring the entrepreneu-al, risk-taking persona of its clients, he Palo Alto (Calif.) firm plays by its wn rules. Its partners sit on the boards f such clients as Autodesk Inc. and attice Semiconductor Corp., flouting he current tide against such conduct. They dole out the kind of financial advice usually expected of bankers or venture capitalists. The firm invests in startups it takes public, maintaining a current portfolio of some 500 client companies, including LSI Logic Corp. and Synopsys. Going another step, Wilson Sonsini does what would be unthinkable in most legal circles: It represents promising upstarts for free until they can pay legal bills. The gamble has paid off handsomely with such success stories as Sun Microsystems Inc.

The result is a 275-lawyer firm intricately tied to the fortunes of its clients as well as its community. It's also one of the most profitable firms in the country, with $100 million in annual revenues. "We're really part of the fabric of Silicon Valley," says 54-year-old Larry W. Sonsini, the firm's driving force. No kidding. Of the 150 largest public companies in Silicon Valley, Wilson Sonsini lists at least 36% of them as significant clients. Since 1990, the firm has taken more than twice as many high-tech companies public as its nearest competitor, according to Securities Data Co.

What's more, Wilson Sonsini represents at least 20 semiconductor companies and the top three independent disk-drive makers. Its vast representation of venture capitalists and underwriters makes for an incomparable business network. "The firm has an ability to access people all over the place at the drop of a hat," says A. Grant Heidrich III, a general partner at Mayfield Fund, a venture-capital firm. Founder Sonsini recognizes that his firm's intricate web could raise eyebrows. "There is an incestuousness in the Valley," he says. "I can see where it would look strange to the outside world."

JUDGE AND JURY. Particularly strange, because lawyers elsewhere, fearful of liability claims, have largely cut off the kinds of ties cultivated by Wilson Sonsini and a handful of other Silicon Valley firms. Clients are cracking down on affil-

> **“** There is an incestuousness in the Valley. I can see where it woul look strange to the outside world **”**
>
> — LARRY W. SONSINI, Founder

iations with lawyers that shareholders say raise such ethical issues as lack of independence. “Increasingly, firms are realizing [such alliances are] risky business,” says Charles W. Wolfram, an ethics professor at Cornell Law School. “The potential for conflict is explosive.”

As Silicon Valley matures, Wilson Sonsini is beginning to pay a price for its devil-may-care approach. The firm has been hit with a malpractice claim, has been kicked off a case by an appellate court, and has had its ethics questioned by Microsoft in its antitrust brawl with the government—all because of alleged conflicts. “It appears to be Wilson Sonsini’s policy that it decides if there’s a conflict, not the client,” says James T. Given, corporate counsel for Cadence Design Systems Inc.

In a recent run-in, Cadence got Wilson Sonsini disqualified from a trade-secrets dispute brought against it by Synopsys. Software maker Cadence contended that since partner Gary L. Reback had once been Cadence’s counsel before joining Wilson Sonsini and was therefore privy to its sensitive information, neither he nor the firm should be allowed to represent Synopsys. A California appeals court agreed in late March. “It takes some guts to stand up to Wilson Sonsini,” says Given. “Their influence is ubiquitous.” Reback says the action is merely the litigation tactic of an adversary and that he had no inside information about Cadence.

That rare challenge to Silicon Valley’s business culture could be a sign of more to come. “There is pressure on us, and it has a chilling effect,” says partner Tor R. Braham. Adds partner Alan K. Austin: “We’re pretty damn careful. In this increasingly litigious world, we have to be.”

Critics say not careful enough. “The firm is so totally integrated in the overall ability to make an idea into a lot of money that it has, in many instances, crossed the line,” argues securities class-action plaintiff lawyer Melvyn I. Weiss. Without actually suing them, Weiss has blasted lawyers in several shareholder suits for owning client stock—a relationship he says gives them a personal stake in the performance of a stock offering. In a case against Quickturn Design Systems Inc., for instance, Wei
firm accuses Wilson Sonsini of helpin
inflate client Quickturn’s financial co
tion in order to attract investors. “T
lawyers who helped Quickturn pur
this scheme personally stood to gain
nancially,” the complaint states.

Wilson Sonsini calls such charges fr
olous. Indeed, managing partner Ma
A. Bertelsen says the firm minimi
any potential problems related to its
vestments by capping them at $25,
per company. And though the fund h
provided a stunning 3-to-1 average r
of return since it was created in 19
no individual can reap a windfall
cause the proceeds are split among t
firm’s lawyers. “What’s the incentive
risk anything for $5,000?” asks Bert
sen. “It’s just crazy.”

Still, alleged conflicts have begun
plague the firm in other ways. L
year, Wilson Sonsini paid an entrep
neur who charged it with a conflict
interest an undisclosed sum to set
his malpractice suit. Larry Sonsini, w
denies any wrongdoing, says the fi
settled to avoid a messy trial.

“POPPYCOCK.” Wilson Sonsini could
duck a messy fight with industry gia
Microsoft. The firm infuriated the so
ware maker by opposing its antitru
deal on behalf of three anonymous c
ents. In appealing a federal judge’s r
jection of the settlement, Microsoft to
the unusual step of railing against t
firm’s alleged conflicting relationshi
“The law firm... has never explain
how it can act as regular outside couns
for Novell Inc. while, at the same tim
directly attacking Microsoft’s plann
acquisition of Intuit Inc. in which Nov
has a substantial interest,” wrote M
crosoft in its appellate brief.

Sonsini, who is on Novell’s boar
says Microsoft’s conflict allegations a
sour grapes. “That’s just poppycock
says Sonsini, adding that Novell use
other counsel to negotiate with M
crosoft and waived any potential co
flicts before Wilson Sonsini took on t
antitrust matter. Novell confirms this

Wilson Sonsini relies on full discl
sure to its clients when potential co
flicts arise. On average, the firm asks c
ents to sign conflict waivers 15 times
month, says Bertelsen. It took five wai

Wilson Sonsini’s Lock on Silicon Valley

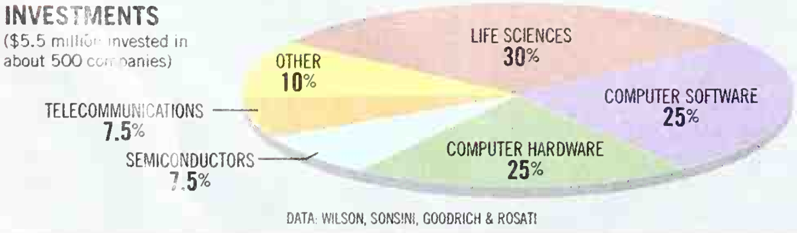
With more than 2,000 clients, including some 1,200 high-tech companies, Wilson Sonsini is a powerful force in Silicon Valley. The firm wields influence through its extensive business network.

SAMPLING OF CLIENTS

- Apple Computer
- Broderbund Software
- Cypress Semiconductor
- Dell Computer
- LSI Logic
- Packard Bell
- Seagate Technology
- Silicon Graphics
- Sun Microsystems
- VLSI Technology
- 20 venture capitalists
- 19 investment banks

CLIENTS WITH WILSON SONSINI PARTNERS ON THEIR BOARDS

- Autodesk
- Cats Software
- Diamond Multimedia
- Genus
- Lattice Semiconductor
- Novell
- OPTi
- Parallan Computer
- Ross Systems
- Silicon Valley Group
- Software Publishing



INVESTMENTS

($5.5 million invested in about 500 companies)

DATA: WILSON, SONSINI, GOODRICH & ROSATI

AMIE TANAKA, CHART BY LISA KNOUSE BRAIMAN/BW

Old Tradition

tor Kozeny
nd Manager
New Thinking

IE CZECH REPUBLIC ['chek ri'pablik] • Premier Václav Klaus; pulation of 10,5 million; stable government; parliamentary democracy; anced budget; GDP 2,5%; stable exchange rate 1 USD = 27,8 CZK; low lation 10%; low unemployment 3,1%; high foreign currency reserves D 8,4 billion; low foreign debt USD 9,1 billion; average monthly salary 00 CZK; PSE market capitalization USD 12,4 billion; 80% economy in vate hands; skilled and educated work-force; convertible currency; free patriation of profits; tax treaties: U.S.A., Netherlands, Cyprus and others listory: from 5th to 6th century arrival of Czech tribes; from 9th to 10th ntury establishment of the Czech state, 1355 Charles IV, Roman peror and King of Bohemia; 1348 Charles University of Prague founded; 18 proclamation of Czechoslovakia; 1968 Prague Spring; 1969 proclaation of the Czech Republic; 1977 Charter 77; 1989 Velvet Revolution, ginning of democratic changes in society; 1990 the Czech and Slovak derative Republic; 1990 establishment of HC&C, The Bill of Rights; 92 first wave of privatization; 1993 dissolution of Czechoslovakia d establishment of the independent Czech Republic; 1994 signature Partnership for Peace agreement; affiliated member of EU; completion of second wave of privatization; municipal elections confirmed ech citizens strong support for market economy in November 1994.

HARVARD FUNDS [ha:ved fandz] • closed funds; established in 1991; one of the largest funds in the Czech Republic, 10% market share; licensed and approved investment funds by the Ministry of Finance, the Czech Republic; member of the Association of Investment Funds and Companies; largest shareholder of Harvard Funds, Harvard Brokerage Services, fund manager: **Viktor Kozeny**, education: Harvard University; fund management company; Harvard Capital & Consulting, Prague, the Czech Republic, established since 1990; over one billion USD in assets under management; 23 investment funds; largest funds: **Harvard Dividend Investment Fund** and **Harvard Growth Investment Fund**; listings: Prague Stock Exchange; brokerage, transfer agent and market maker, Harvard Brokerage Services, member of Prague, Bratislava and Moscow Stock Exchanges; largest holdings: utilities 25%, financial institutions 22%, telecommunications 18%, chemical 12%, other 10%, pulp and paper 6%, construction 4% and consumer goods 3%; return based on initial price of voucher book: **two thousand eight hundred and fifty percent, 2.850%** (from May 1, 1992 to December 16, 1994: 1.035 CZK, i.e. the price of a voucher book), average annual return **three hundred and fifty percent, 350%**; discount to Net Asset Value 62% as of 16 December, 1994 on PSE (last trading day for the year: December 16, 1994); dividend per share 132 CZK.

Harvard Funds

The Czech Republic

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ers from an array of clients for the firm to represent Wavefront Technologies Inc., which is currently being bought by another client, Silicon Graphics Inc. When Novell acquired WordPerfect in 1994, the firm not only had to get waivers, but Larry Sonsini, who was on the board of directors at both companies, resigned from WordPerfect.

Wilson Sonsini says it has turned away business even from the likes of Intel because of conflicts with existing clients. "Clients are often more relaxed about the conflict issue than the lawyers are," says Craig W. Johnson, an ex-Wilson Sonsini partner.

For now, most clients seem more than satisfied. The vast majority of those interviewed have faced thorny conflicts using Wilson Sonsini as counsel. Yet they gladly sign waivers in exchange for access to the firm's industry knowhow, legal skills, and connections. "They represent all the successful companies," says Seagate Technology Inc. Chairman and CEO Alan F. Shugart. "I don't worry about conflicts."

Synopsys, which does 30% of its business with Wilson Sonsini clients, says that if it didn't overlook potential conflicts, business would suffer. "If everybody took a black-letter view of the law with respect to conflicts, nothing would ever get done," says Synopsys' Lippe.

SUPPORT. Loyalty and trust runs so deep that companies abdicate control over routine matters to the firm. Recently, Wilson Sonsini interviewed candidates for general counsel of client Conner Peripherals Inc.—in essence helping to pick the person who will eventually supervise its legal work. And when Broderbund Software Inc. planned a merger with Sierra On-Line Inc., the companies jointly hired Sonsini, rather than investment bankers, to value the deal.

Even those who question the wisdom of such practices as lawyers sitting on clients' boards seem to drop their objections when it comes to Wilson Sonsini. "If there's an exception to the rule, I'd say it's Larry [Sonsini]," says Sanford R. Robertson, chairman of investment bank Robertson, Stephens & Co.

As long as clients offer such unwavering support, Wilson Sonsini has little incentive to back away from its chummy philosophy. Change will only come as companies grow and rely more heavily on global connections, or in the event of more lawsuits and financial penalties. Until then, Wilson Sonsini plans to stay in lockstep with its clientele. "I always want to be where my client is going," says Sonsini. And for the moment, that's full speed ahead into the next century.

By Linda Himelstein in Palo Alto, Calif., with Russell Mitchell and Robert D. Hof in San Francisco

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Marketing

BREAKFAST CEREALS

HAS GENERAL MILLS HAD ITS WHEATIES?

The luckless cereal maker insists it's crackling again

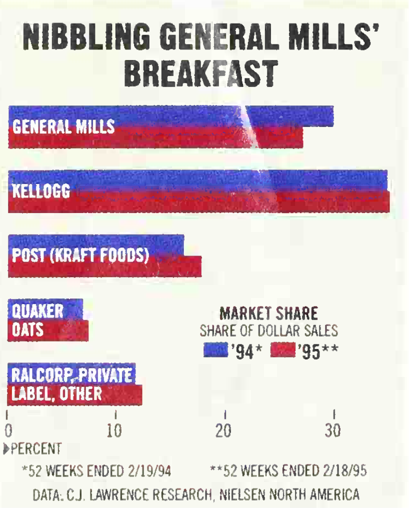
All he wanted to do was slay the dreaded Bogos. A year ago, Stephen W. Sanger, the No. 2 executive at General Mills Inc., tried to put an end to a breakfast-cereal marketing war. Sanger cut back on high-cost coupons and grocery-store promotions—especially the buy-one-get-one-free deals, known as Bogos, that run up sales volume at the expense of profits. At the same time, he lowered prices on many big brands so consumers and retailers would still find them competitive. Sanger confidently predicted that earnings would rise while volume and market share would hold steady.

A year later, Mills has learned that if getting caught in a price war can be dangerous, trying to end one can be even worse. Its market share, volume, and profits have all declined. That's partly the result of bad luck: A crisis involving cereal contaminated by a contractor undermined the new marketing plan in its crucial early stages last summer. But General Mills' woes are also self-inflicted. Its vaunted product-development program ran aground with a string of embarrassing flops. And one competitor poured on its own promotions just as Mills was shutting the spigot. Now, the Minneapolis-based maker of Cheerios and Wheaties is closing in on a second straight year of disappointing results. So is Sanger retreating? "Hell, no," he declares. "We took the medicine to get this category back on the right track. The last thing we want is a relapse."

Instead, he insists, watch for a rebound. On May 28, the end of the fiscal year, the 49-year-old Cincinnati native who got his early training at Procter & Gamble
will take over as chief executive,
placing H. Brewster Atwater Jr., wh
retiring at age 64. At the same ti
General Mills will spin off its $3.5 bil
Red Lobster and Olive Garden rest
rant subsidiary, allowing Sanger to fo
on its $5.5 billion grocery business.
"born again" packaged-food comp
will enter fiscal 1996 with its market
strategy finally clicking and product
velopment back on track, says San
who has managed most of the bigg
brands in his 21 years with Mills.
cent overhauls of manufacturing a
distribution will lower costs and incre
productivity. And with most of its ca
tal spending behind it, the company
generate some $300 million annually
stock buybacks, dividend payouts, d
reduction, and acquisitions.

If Sanger fails to deliver, Gen
Mills stands to lose more than a
pennies off its earnings per sh
There's buzz in the industry that
could become a takeover target.
cash-rich company has attractive bra
besides cereal, including Betty Crock
Hamburger Helper, and Yoplait yog
The spin-off of its erratic, capital-int
sive restaurant business makes M
easier to digest. And it's already lin
with a logical par
through an overs
partnership w
Nestlé, which w
once rumored to
stalking Qua
Oats. "Either it p
up strong earni
numbers, or it s
out," one indus
expert predi
Sanger says he's
worried, because
expects "good ea
ings, good grow
prospects, and
high multiple."

With invest
betting that a m
focused managem


NIBBLING GENERAL MILLS' BREAKFAST

*52 WEEKS ENDED 2/19/94 **52 WEEKS ENDED 2/18/95

DATA: C.J. LAWRENCE RESEARCH, NIELSEN NORTH AMERICA

l concentrate on the food
iness, the stock has recov-
d lost ground, closing at 60⅜
Apr. 25, up from 50 in late
y. In the first three quarters
fiscal 1995, sales and earn-
s from continuing food oper-
ons dipped slightly. In 1994,
neral Mills earned $470 mil-
on sales of $8.5 billion. Ana-
ts aren't looking for more
year but expect a jump in
6.

That depends on whether the
ce holds. Last year, General
ls and Kellogg Co. were both
loying the costly Bogos,
aling business from their
aller rivals. But when
ny companies offer
f-price deals, no one
kes up in volume
at they lose in
ce. So in April, six
nths after he be-
ne president, Sang-
cut back. Kellogg mod-
ted, too. Wall Street analysts
plauded, taking it as a sign
t cereal makers would build
ofits instead of fighting for
are at all costs.

GGED OUT. Not so fast. Like
unilateral cease-fires, Sanger's
ace declaration carried a big risk
t not everyone would follow along.
aft Foods' Post Div., maker of
redded Wheat and Grape Nuts, had
ken a pounding as Mills and Kellogg
oded the market with Bogos. When
two leaders halted the costly promo-
ns, Post saw a chance to regain lost
ound. It unleashed its own promo-
ns last fall, recovering its lost market-
are—and then some (chart).

Most of Post's gains came from Gen-
al Mills—which was coincidentally
ppled by a bizarre incident involving
g spray. Last spring, a contractor
ed to fumigate the company's oats
bstituted a cheaper pesticide not ap-
oved for use on food. By the time
neral Mills uncovered the problem,
had to halt shipments to retailers,
ap 50 million boxes of cereal, and
l 16 million bushels of oats as ani-
l feed. For nearly two months, Cheer-
and its other oat-based brands were
short supply—just as promotions
ased. Although General Mills had cut
ices on many of its major brands by
average of 11%, retailers were loath
pass along the savings in the midst of
shortage. So General Mills' prices
yed the same while promotions disap-
ared, making the brands more expen-
e than rivals. The disruption made
impossible to evaluate the new mar-
ting strategy for nearly six months.

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Y 1 GE

JAIME HOGAN

The buzz: If Sanger doesn't solidify soggy earnings, General Mills may soon be a takeover target

On top of those woes came a new-product drought, which is particularly damaging in a business where 30% of sales typically comes from products less than five years old. For years, General Mills had led its peers, expanding its Cheerios franchise with the likes of Honey Nut, Apple Cinnamon, and Multi-Grain Cheerios. In fiscal 1994, the company thought it had an innovative hit in Fingos, a premium-priced cereal designed to be eaten dry, straight from the box. But consumers stayed away. Other new General Mills brands also failed to measure up.

Sanger wants to turn that around. In December, he named Jeffrey J. Rotsch, who had a string of new-product successes at the company's Betty Crocker unit, to head the cereal division—a job Sanger once held. Spending on TV advertising, already beefed up in the second half of fiscal 1994, will continue at higher levels as Sanger uses some of his savings from reduced promotions to build brands and support product introductions.

DISTRACTED. Watch for big savings in manufacturing and distribution as well. Buried in the news of its restaurant spin-off last month was $83 million in charges for shutting down obsolete production lines. That move will contribute $20 million to annual profits, and maybe more. "Everybody is dramatically underestimating the impact of the cost reductions," says analyst Michael J. Mauboussin of CS First Boston. General Mills also expanded a management program that increased productivity some 20% at plants where it was tried by allowing worker teams to set their own production schedules, hire new employees, and supervise plant operations. Paring promotions should yield efficiencies, too: Seasonal discounts encourage retailers to stock up, creating steep peaks and valleys in production.

While not every retailer likes the promotion cutbacks, they generally applaud the restaurant spin-off. General Mills executives have been too distracted, says Thomas S. Haggai, CEO of IGA Inc., a chain of 2,500 independent grocers: "That weakened our relationship with them in the cereal business."

The marketing battles have subsided over the past five months, and none of the major players was running the fell Bogos as of late April. Analysts doubt any of the players will risk their bottom lines with another round of costly giveaways in the near future. Even at Kraft, CEO Robert S. Morrison says, "Our interest is in building long-term equity of our brands, not in seeing who can win a giveaway contest." But it only takes one competitive move to break the truce. "That's the catch-22," says William Van Arnum, analyst at the Regents of the University of California, the company's No. 2 stockholder as of yearend 1994. Sanger has already taken some hits in ending the Bogos war. Now he needs to show some results before an acquirer eats General Mills for breakfast.

By Greg Burns in Chicago

The reason we're big news?

ACER
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Acer Opens 20 New Plants Across Europe
U.S.A. Sales Up 96 Percent

Uniload Helps Acer Deliver Fresh Technology Acer keeps popping up in the news. We're the computer giant with record 1994 revenues of $3.2 billion and climbing. And because we've been steadily meeting and surpassing projections for years now, we're suddenly a hot topic of discussion around the world. The big news is that every day, we deliver the newest, freshest PC technology to our customers around the world.

Today's PC market is so fast-paced that users are sometimes buying yesterday's technology today. That's old news. Acer's novel approach is a process called Uniload, which enables us to build fresh PCs daily at 30 manufacturing sites worldwide; close to market and close to you.

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Acer 1994
19%
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Cover Story

THE G

VENTER, UNFAZED BY CRITICS, SAYS: "I HAD A RADICAL IDEA, IT WORKED, AND I WAS AN OUTSIDER"

Freud was wrong: The gene, r anatomy, is the closest biolo comes to destiny. The 60,000 80,000 genes in each of our ce are the blueprint—the operati system, if you will—of humani Inscribed in their double helix of DNA are tales of life and deat sickness and health. By instructing cells to make protei they determine whether our eyes are blue or brown, whet er or not we can dunk a basketball, and whether we shou worry about developing heart disease or breast cancer.

What's turning pharmaceutical executives into gene afic nados is the prospect of vast commercial treasure in tho spiraling strands. A single gene, if it makes a protein th works as a drug, such as Amgen Inc.'s anemia-fighting Ep gen, could mean a product worth more than half a billion d lars a year. And that's just the beginning. Tests to spot t faulty pieces of DNA that cause such diseases as cystic fibro or colon cancer—a market worth $376 million a year—shou balloon into a multibillion-dollar business early next centu Greater knowledge of human genes promises "smarter" dru and the ability to nip disorders in the bud. Genes "are the ra material for the next wave of therapeutic discoveries," sa

E KINGS

Two scientists are changing how DNA is mined–and drugs are discovered

SELTINE'S EMPHASIS COMMERCIALLY BLE GENES IS ASHING WITH ITER'S DESIRE TO RSUE BASIC SCIENCE

Lawrence Livermore National Laboratory's Gregory G. Lennon.

Five years ago, science's DNA sleuths—most of them academic researchers—had nabbed less than 5% of all genes. And it appeared t reading the rest would take many years. One man changed that: J. Craig Venter, an ex-surf bum and obscure National titutes of Health scientist, perfected a method to rapidly find l sequence genes.

Venter still seeks respect in the snobbish world of science. his innovations are transforming the pharmaceutical indus- Even skeptics such as Dennis Henner Genentech Inc. admit Venter's work making companies reevaluate all their hnology and drug discovery methods." e impact of this genetic information going to be enormous," adds Upjohn . Distinguished Scientist Jerry Sligh- n. "It may be the mainstay of drug npanies in the future." It is also turn- Venter and fellow scientist William Haseltine into potential Gene Kings. The two men have formed one of the oddest alliances in biotech: Venter, 48, heads the nonprofit The Institute for Genomic Research (TIGR) in Gaithersburg, Md. Haseltine, 50, is CEO of Human Genome Sciences Inc. (HGS) in nearby Rockville, Md., which has rights to commercialize TIGR's findings. Together, they have deciphered DNA sequences representing parts of a staggering 85% to 90% of all human genes. The functions of more than half of these remain unknown. Still, they say, their databases contain leads for scores of new drugs. To Haseltine, their discoveries rival that of Balboa, who crested a mountain range in Panama to see—and claim for Spain—a whole new world. "This isn't like oil—there's not more than one gene pool," Haseltine exults. "All people who come later can do is repeat what we've done."

Critics see that as classic hype from Haseltine, who is known as much for his hubris as for his scientific brilliance. But giant drugmakers and startups alike have anted up millions of dollars in a frenzied race to acquire and mine this genetic treasure trove. SmithKline Beecham was the first believer. It committed $125 million to HGS in May, 1993, for a 7% equity stake and first dibs on promising genes. Now, everyone wants to be king. Hoffmann-La Roche Inc. has invested $70 million in Millennium, a Cambridge (Mass.) startup. Upjohn and Pfizer Inc. have paid millions to look into the data banks of HGS's main rival, InCyte Pharmaceuticals in Palo Alto, Calif. And last September, Merck & Co. funded a major gene-sequencing operation at Washington University.

THE REAL GENETIC JACKPOT. Experts see Merck's approach as a direct attempt to undermine the Gene Kings. The drug Goliath will make all the gene-sequencing data public. To some, it's the biotech equivalent of a computer company giving away its new operating system—and making money on the applications. Merck executives figure that if everyone has the same information, the company's vaunted research and development department can win most of the races to market. "Making drugs from genes is like going from a dictionary to the works of Shakespeare," explains Merck's Alan R. Williamson, vice-president for research strategy worldwide.

Why is Merck making its gene-sequencing data public? It may be an effort to undermine the Gene Kings

The great debate, however, goes beyond HGS vs. Merck, or proprietary vs. "open" gene strategies. The real genetic jackpot may have nothing to do with the sheer number of genes identified and cataloged. That's why, rather than blindly sequencing tens of thousands of unknown pieces of DNA, outfits such as Millennium

PHOTOGRAPHS BY PETER SIBBALD

and Sequana Therapeutics are hunting for genes that cause diseases such as diabetes and obesity.

Even this more targeted approach, critics say, doesn't guarantee success. After all, the world is awash in DNA data, but brilliant new therapies are rare. "Identifying genes is only the beginning of a long, painful, and expensive process of drug development," explains Michael Steinmetz, vice-president for clinical R&D at Hoffman-LaRoche. In the end, says skeptic Stephen G. Pagliuca, managing director of Bain Capital Inc., a Boston consulting firm: "Investing in genomics is like going to Las Vegas."

Venter and Haseltine are unfazed. They've deployed powerful supercomputers to pin down functions of thousands of unknown genes and, with SmithKline, pull out those that could lead to products. HGS is also madly filing patents on everything from gene fragments that help diagnose cancer to proteins with possible therapeutic benefits. Even where HGS and SmithKline opt not to develop a product, the patents may allow them to reap royalties on others' drugs (page 76).

A GOLDEN RECORD. This aggressive patent stance has incensed rivals. "They want to be the gatekeeper of the genome," fumes one pharmaceutical executive. "They think they have everyone else over a barrel." It may also have incited Merck's radical actions. But Venter belittles the threat from the pharmaceutical giant. "They're just validating my approach," he says, "except they're a couple of years late." Even when the Merck project ends in 1996, says HGS's drug-development chief, Michael J. Antonaccio, HGS and TIGR will still have a far thicker "dictionary" of genes. Merck "may use its dictionary to come up with some very good poetry," he says, "but our potential is so much greater."

> "They want to be the gatekeeper of the genome," fumes one pharmaceutical executive. "They think they have everyone else over a barrel"

If HGS lives up to that potential, much of the credit will go to Venter. A champion backstroker in high school, "I was anti-intellectual to an extreme," he recalls. He shunned college to surf at Newport Beach, while working as a night clerk at Se Roebuck & Co. As the Vietnam War draft loomed, Ve enlisted in the Navy—with the understanding that he woul on the swim team.

When Venter was in boot camp, President Johnson esca ed the war and shut down military sports teams. Fortuna Venter recounts, he scored highest out of 30,000 on his mili intelligence test and got his choice of training. He picked pital corpsman because it wouldn't extend his three-year er ment. That left him patching up wounds in a Navy hospita Da Nang and in a Vietnamese village. "It was a lifetime of ucation packed into one year," he says.

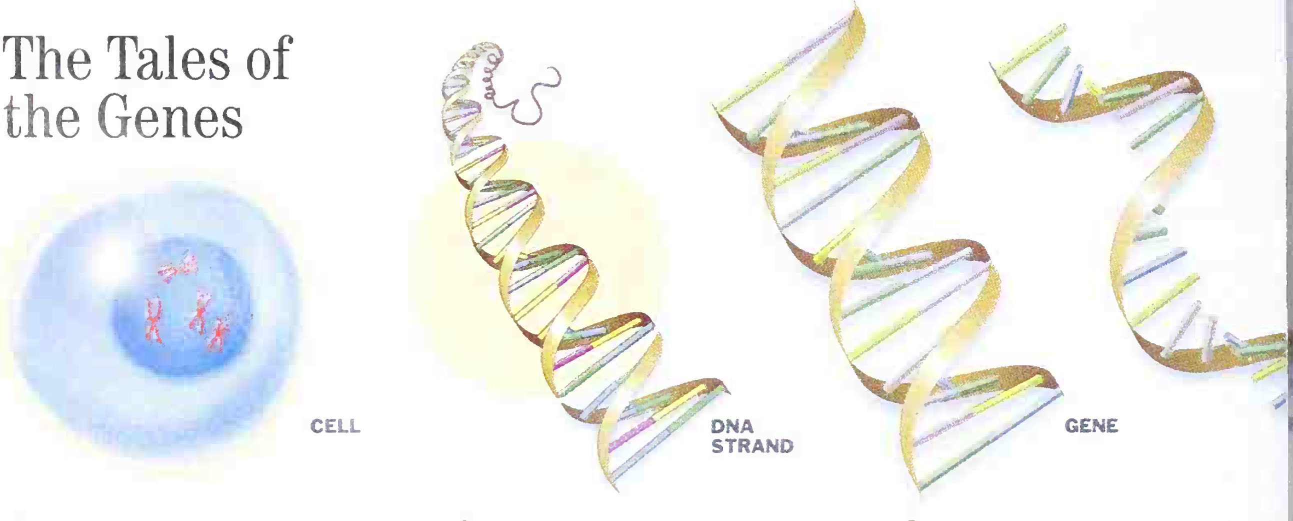
When he left the Navy, a now academically driven Ve raced through his undergraduate deg and his PhD in biochemistry in six ye He quickly snared a faculty positio the University of California at San D and, in 1984, was recruited by the NI

If Venter's background seems unu for a scientist, Haseltine is pure p gree. A Navy physicist's son, he grew steeped in science. His life has bee golden record of accomplishment: honors at the University of Californi Berkeley, training with Nobel laure James D. Watson and Walter Gilber prestigious post at Harvard Univer and discovery of several HIV genes.

With that, Haseltine leaped into limelight. A leading spokesman on A he lobbied Congress for more funding, warning the dise would spread to heterosexuals. Critics called him a publi hound. "I believe it's your responsibility to speak out if you a major health problem, even if that poses a risk to your career," he replies. He also ruthlessly exposed flaws in oth work while extolling his own. "His personality is a real liabil says friend and Harvard colleague Max Essex. Were his m ner more diplomatic, Essex adds, "he could be ruling world." Haseltine shrugs off the criticism. "Some people in pret enthusiasm as arrogance," he retorts.

But Haseltine also earned respect for his research and

The Tales of the Genes



1 Each human cell contains some 60,000 to 80,000 genes, which are made of DNA. But only 3% of all DNA is actually genes. The rest is regulatory elements and "junk." So reading the code of each DNA strand, or "sequencing" it, is difficult.

2 Craig Venter takes a shortcut. Cells know which parts of DNA are genes. They copy the genes into messenger-RNA (mRNA). So Venter grabs the mRNA and makes a DNA copy (cDNA), thus snaring only genes, not the junk.

3 Venter then takes thousands of such cDNA pieces, and uses automated machines to read parts of their genetic code. He and HGS now have sequenced parts of an estimated 85% to 90% of all human genes.

ILLUSTRATION BY LISA KNOUSE BRAIMAN/BW

ity to nurture talent in others. "He was a powerful mentor," s former student Alan D'Andrea, an associate professor at vard Medical School. "I was always glad I was on the e side of the table."

Vhile Haseltine thrived in high-profile science, it was Venter) took an obscure idea and transformed it into a critical akthrough. In 1986, he spotted a paper by geneticist Leroy Hood that suggested a method for doing DNA-sequencing n robots instead of manually. Having spent months doing it old-fashioned, tedious way, "I was one of the few people) got excited," Venter recalls. He scrounged $110,000 in ding to get one of the first sequencing machines from Ap- d Biosystems Inc., developed from Hood's ideas. And Ven- was the first scientist to get it to work, he says.

AST AS A VILLAIN. It was a time of growing excitement and troversy in biology as scientists were proposing the mam- h 15-year, $3 billion Human Genome Project. The idea was first map every part of the 23 pairs of human chromo- es, using known genes and other types of markers to place posts along the chromosomes. Next, scientists planned to se- nce all of the DNA in between the signposts. Venter's idea— g the new machine to plunge into the second part of the ome project by reading big chunks of the X chromosome— support from Watson, the co-discoverer of the structure of , who was heading the NIH's genome project. But review mittees repeatedly denied it funding because the technolo- was deemed too new.

hen Venter had a better idea. Although each human cell bors some 3 billion individual molecules of DNA, strung to- her like rungs of an immense ladder, only 3% of them are nd in actual genes. These instruct cells to make specific teins, which in turn, control how the body develops and ctions. The rest of the genome is so-called junk DNA, with gely unknown functions.

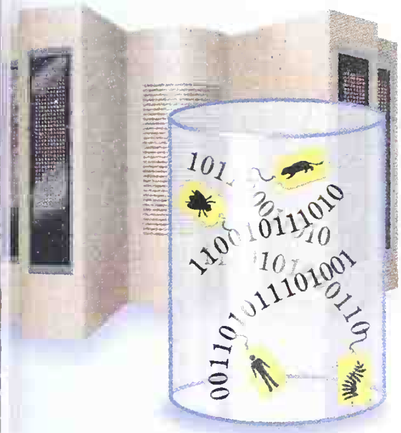
f he just read the code spelled out by every piece of DNA, ter figured, the presence of all that junk would make it rly impossible to find—or understand—the es themselves. But, as he says, "cells are rter than scientists." In order to create neces- y proteins, cells ignore the junk and copy the of important genes into a related molecule, messenger-RNA (mRNA), which tell the cells' protein what to make. "My insight—or my perception of the obvious—was recognizing that biology works pretty damn well," he says.

To pinpoint the genes, Venter planned to scoop up the easily spotted but fragile mRNA, then make sturdier DNA copies—cDNA—to feed into his sequencing machines. To speed things even more, he read just part of the DNA, since each interesting fragment could later be used to fish out the whole gene. The approach cut the cost of sequencing an unknown gene from an estimated $50,000 using older methods to roughly $20.

It wasn't a new idea, and the gene-hunting elite didn't buy it. They argued that nature was essentially uncooperative: Only a tiny fraction of the genes in a given group of cells are turned on. For example, muscle cells might be making only a couple of key muscle proteins, leaving everything else switched off. They figured the method would snare mRNA from 8% of the genes, at most—many of them uninteresting.

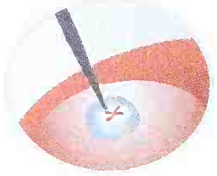
They were wrong. "Venter lucked out," says University of Wisconsin gene-sequencer Frederick R. Blattner. "Nature was not throwing us the terrible curveball that people feared." Other scientists were spending years to collar one gene; Venter was able to sequence bits of 100 human brain genes in months.

Then, all hell broke loose. Figuring the sequences had value that should be protected, the NIH filed patent applications on 315 gene fragments in June, 1991. It later withdrew all the applications, but not before Venter had been recast as a scientific villain. Part of the flood of criticism was aimed at the idea of patenting gene fragments, but much was a direct assault on Venter and his method. Watson charged at a July, 1991, Senate



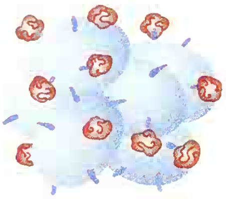
This treasure trove of genes may hold a cornucopia of potential products:

New gene sequences go into a giant database, where they can be npared with the known genes of rything from humans to rats and it flies. The method also reveals cial information about when and ere a particular gene is active.



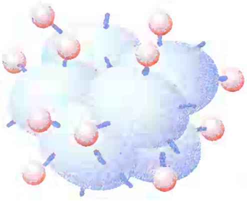
DIAGNOSTICS

Probes for spotting everything from pathogenic bacteria to the various stages of cancer. Left: A probe spots genes turned on only in a tumor.



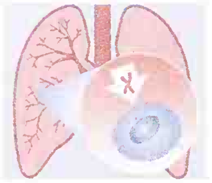
THERAPEUTIC PROTEINS

Newly discovered genes code for proteins that could act as drugs, boosting the immune system, say, or dulling the appetite. Left: Protein binds to cells in the brain's appetite center, turning off hunger.



SMARTER DRUGS

Many genes code for receptors on cells. Finding drugs that bind to these receptors offers potential therapies for everything from heart disease to Alzheimer's. Left: Drug attaches to a receptor, turning a pathway on or off.



GENE THERAPY

Newly discovered genes could be put into cells to help fight cancer, brain disorders, or other diseases. Regulatory DNA segments ensure that genes work properly. Left: Cystic fibrosis genes go into lung and pancreas cells.

While scientists sneered at his method, business took notice: By May, 1992, Venter had two $70 million offers

hearing that Venter's operation "could be run by monkeys." Other luminaries sniffed that Venter hadn't found anything major, such as the Huntington's disease gene, and that what he was doing was uninspired, unsporting, and a threat to the genome project. "I had three strikes against me," Venter recalls. "I had a radical idea, it worked, and I was an outsider."

Even now that cDNA has become mainstream, many scientists belittle Venter's contribution. "He gets credit for inventing this whole technology—that's blatant nonsense," says Hood. "He has never invented anything. The only thing he deserves credit for is scaling up the process." Retorts Venter: "What really pisses people off is once they see it works, they think: 'I could have done that.'"

Cover Story

But if scientists failed to applaud, the business world took notice. At a time when only a few human genes were known, "Craig offered an approach that might enable you to quickly discover most of the rest," says venture capitalist Wallace H. Steinberg, chairman of HealthCare Investment Corp., which founded TIGR and HGS. "It was not an opportunity that would ever come along again."

By May, 1992, Venter had two $70 million offers: one from Steinberg and one from Amgen. Steinberg was ready to commit only $20 million. But Venter wanted $70 million (later upped to $85 million) for a nonprofit outfit that would let him do the academic work he hoped would boost his standing in the scientific community. Given the tremendous value of the approach, Steinberg says, he had no choice but to ante up. At the same time, he founded HGS to commercialize TIGR's gene sequences and began looking for a CEO to run it.

Enter Haseltine. Even his numerous critics readily admit he is an exceptional scientist. "Bill has a smell for what's important in molecular biology," says NIH virologist Robert C. Gallo, codiscoverer of HIV. In fact, venture capitalist Steinberg had launched several Boston-area companies based on the Harvard virologist's ideas. But he couldn't induce Haseltine to leave the ivory tower until HGS came along. Haseltine took a leave from Harvard to move—with his socialite wife, Giorgio perfume creator Gale Hayman—to Washington.

Meanwhile, Steinberg began approaching drug companies, trying to sell Venter's gene data. Rhone-Poulenc Rorer was one company that
clined. "We couldn't handle all that data," explains one insi
SmithKline R&D chief George Poste, on the other hand, re
nized "a technology that was absolutely fundamental for our
ture competitiveness." Despite widespread skepticism in
drug industry, he persuaded his bosses to sign on. "It was a
gamble," says Stanford University biochemist Paul Berg.

ON-SWITCHES. The colossal question now is: how to go from
hundreds of thousands of gene fragments with unknown f
tions to products. As always, skeptics abound. The DNA cod
those fragments offers "no insights into anything," says H

Some scientists, though, see tantalizing clues in the
quences of the cDNA fragments. They have learned to disc
key features in snippets of genetic code. For example,
pattern, or motif, of individual DNA molecules usually result
a protein attached to a cell membrane, such as a receptor
outside signals. With an unknown gene, says Berg, "it's poss
to make a good guess at the function of the protein it encod
The guess may sometimes be wrong, so HGS fully sequen
scores of its genes, testing the proteins they make.

In addition, academic researchers have been making en
mous strides in probing the DNA of simple critters such
yeast and nematodes, whose genes usually have human co
terparts. When the machines at HGS spit out a new
quence, scientists co
their databases for tell
motifs or similarities
known genes. SmithKl
scientists have used t
approach to discover w
Poste describes as "a to
ly novel enzyme" that
solves bone. He hope
chemical that inhibits
enzyme may offer a tre
ment for osteoporosis.

The strategy works in
verse, too. In Decemb
1993, Johns Hopkins Univ
sity oncologists Bert Vo
stein and Kenneth W. K
ler were racing to catch
with rivals at Harvard
the University of Verm
in a hunt for the gene th
when flawed, causes inhe
ed colon cancer. They s
pected that the gene n
mally fixes errors ma
when cells copy DNA dur
cell division and had in ha
such a gene from yeast.
in what many see as a vi
cation of the cDNA approa
they agreed to cede pr
uct rights in return for
cess to HGS's database.
minutes, they found the
man version. "It's the v
things are going to be d
in the future," says Kinz
That's especially true
the pharmaceutical ind

Mapping the Genome Companies

Pharmaceutical giants and biotech startups are mining the treasures in the human genome. Some key players:

COMPANY	STRATEGY
HUMAN GENOME SCIENCES	Sequencing almost all human genes, then hopes to develop drugs and diagnostics, mostly with partners.
SMITHKLINE BEECHAM	Invested $125 million in HGS to use its sequences to create new products.
INCYTE PHARMACEUTICAL	Sequencing cDNA from many different tissues to find interesting genes. Is selling access to its data.
PFIZER	Paid InCyte $25 million for access to database.
UPJOHN	Signed $20 million deal with InCyte for gene data.
BRISTOL-MYERS SQUIBB	Invested in SEQ and Cadus to develop new sequencing technology and drug screens.
MILLENNIUM	Searching for specific genes that cause obesity, diabetes, asthma, atherosclerosis, and cancer.
HOFFMANN-LAROCHE	Signed $70 million deal with Millennium.
MERCK	Paid Washington University to sequence 200,000 gene fragments. Makes data public.
SEQUANA THERAPEUTICS	Searches family histories and HMO data for genes that cause hypertension, asthma, and obesity.
AMGEN	Sequencing genes to find new drug targets.
TAKEDA	Uses SmithKline and HGS data to develop drugs.

DATA: BUSINESS WEEK

s lifeblood: drug discovery. In the past, drugmakers tested
ısands of chemicals to find one that eased pain or lowered
ɔd pressure. More recently, they have begun to grasp the
erlying biology, finding enzymes and biochemical path-
/s that can be blocked or activated by drugs. But the
y typically has substitute pathways, so drugs often don't
ction as well as expected. With a database
DNA sequences, "you can start with the
set [of genes and pathways] and choose the
t one," says HGS Senior Vice-President for
) Craig A. Rosen.
DNA could help solve another major problem:
earth of novel drug targets. Experts be-
e a database of all human genes must be la-
with clues to previously unknown biochem-
pathways that could be manipulated to
ıt or prevent disease. The trick is finding
m. One clever method is comparing cells
n different organs, or from normal vs. diseased tissue.
en scientists at SmithKline studied stroke in animals, for ex-
ıle, they found more than 20 genes that switched on at the
et of the illness and more than 30 that switched off. Poste
ects the key to treating or preventing stroke lies hidden in
se 50-plus genes.
Similarly, scientists at HGS and TIGR have found that a whole
/ batch of genes turn on when normal prostate cells turn
cerous. HGS and SmithKline are now using the genes to
ke diagnostic tests for spotting signs of malignancy. More-
r, some of the genes could offer new strategies for halting
cer in its tracks. The finding, says Samuel Broder, recently
arted director of the National Cancer Institute, "is fabulous-
nteresting."
/enter is also pushing the frontiers of basic science. In late
y, he will announce the DNA code for the first two mi-
bes ever fully sequenced, offering crucial insights into the bi-
gy of these bacteria. It will also provide a better under-
nding of human biology and disease, since nature reused
st bacterial genes in complex mammals, including humans.
NIH had declined to fund this effort, claiming his cDNA
hod was no match for the task. But once again, Venter con-
nded popular wisdom. "No one else thought it could be
ne," says Nobel laureate and molecular geneticist Hamilton
Smith of Johns Hopkins.
PERILS OF PUBLISHING. Few now doubt that the cDNA ap-
ach is transforming science. But who will reap the commer-
benefits? Haseltine is determined to stay in the lead—even
requires a change in strategy. Originally, HGS planned to
/ primarily on DNA sequences produced by Venter at TIGR.
by 1993, Venter was turning more to basic science—and
faced growing competition from rivals such as InCyte,
ich were also using the cDNA approach to sequence thou-
ds of genes.
So Haseltine changed HGS's course to downplay TIGR's role.
duplicated Venter's sequencing and computer systems on a
nder scale and began churning out 750,000 pieces of DNA
e a day, while racing to find and patent the most important
v genes. He wants HGS to develop some drugs on its own,
p SmithKline make others, and license the rest.
The strategy is risky. For one thing, it has helped create a
ism between the two Gene Kings. Venter's unusual deal with
gave him the right to publish his findings quickly. In return,
got commercial rights to all the genes he discovered. At a
t to his academic standing, Venter initially bowed to pressure
m HGS to delay publishing and to focus only on human
nes. But now, he's making his data public, with major papers
ning out soon. The result is conflict. "Craig feels that HGS ba-
lly repeated what he did and stole the glory," says one com-
ny insider. "HGS sees Craig's desire to publish as undermin-
their commercial position. Now, they're handing over

The Long March to Unravel the Mystery of Genes

DNA PIONEERS CRICK (RIGHT) AND WATSON, LATER HEAD OF THE NIH'S GENOME EFFORT

1953 James Watson and Francis Crick discover DNA's structure.

1966 Scientists finish cracking the genetic code, showing that groups of three molecules in the strand of DNA provide the code for particular amino acids, the building block of proteins.

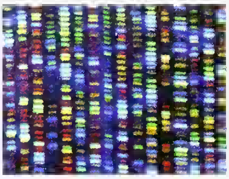
1973 Herbert Boyer and Stanley Cohen of Stanford University make the first clones of genes.

1975 Harvard University researchers isolate and clone the first mammalian gene, a component of hemoglobin in rabbits.

1977 First human gene cloned.

1989 Scientists find the cystic fibrosis gene, and go on to nab genes for scores of diseases.

1990 The Human Genome Project, a 15-year, $3 billion effort to map and sequence all human genes, officially kicks off.


A DIGITAL VIEW OF DNA-SEQUENCING

1990 Craig Venter scales up sequencing of genes, as opposed to "junk" DNA, which makes up 97% of genetic material.

1992 By early 1992, Venter has sequenced parts of several thousand genes. He leaves the National Institutes of Health to set up The Institute for Genomic Research (TIGR).

1994 Merck announces support of a massive sequencing effort at Washington University.

1995 TIGR and its partners have sequenced 85% to 90% of all human genes. Other databases also contain sequences for thousands of genes from bacteria to mice.

AGTC
CC
TG
AGA
TC
A

2002 Scientists expect all human DNA to be sequenced along with the genomes of a number of plants and animals.

DATA: BUSINESS WEEK

$8.5 million a year and not getting much in return."

Internal clashes, however, are the least of Haseltine's worries. HGS's plan puts the bold startup against a host of competitors, especially Merck. With sequences to more than 4,000 gene fragments now flowing each week from the Merck-funded operation at Washington University into public databases, "Merck has really broken the monopoly," says Baylor University gene-sequencer Richard A. Gibbs. What's more, other genome companies, such as Myriad Genetics, Sequana, Mercator, and Millennium, are trying a different tack. They see no point in HGS's approach of blindly sequencing thousands of unknown genes. Instead, they are studying families in which the incidence of diseases such as diabetes or cancer is unusually high. That way, they can snare the underlying genetic mechanisms, then develop drugs for those diseases. HGS may win the race to nail many genes, argues lennium CEO Mark J. Levin, but his own, more focused str gy will be a faster way of getting drugs to market.

Cover Story

And so, the race is on: the Gene Kings and their partn against the rest of a drug industry, which is straining to ca up. A few skeptics notwithstanding, "nearly everyone is into nomics," says Bear, Stearns & Co. analyst David T. Molo "Everyone is a believer." The first wave of products—new agnostics—may be on the market in a year or two, with po tially important drugs emerging by the end of the decade. then, it may be clear which strategy will carry the day— whether Haseltine and Venter have managed to stay on th thrones. Whatever the outcome, their position as pioneers i medical revolution is already secure.

By John Carey in Rockville, Md., with Joan O'C. Hamil in San Francisco, Julia Flynn in London, and Geoffrey Sn in Boston

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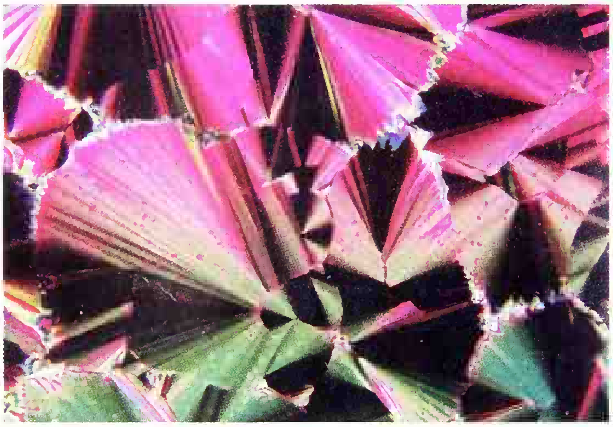
UNTANGLING THE LEGAL STRANDS OF DNA

Becoming a Gene King takes more than clever technology. Contenders must navigate the shifting shoals of patent law—a challenge, since no one knows exactly what will be patentable in the future.

Some precedents do exist. Several hundred genes—and their protein products—are currently patented for medical use. But that's a tiny fraction of all human genes. And the few blockbuster patents awarded—such as Genentech Inc.'s on human growth hormone and clotbuster TPA—have sparked fierce court battles.

The looming question: How much information will scientists and managers need to secure a patent? If they find a gene, read its complete code, and show how it works in the body, they can probably win exclusive rights to it—and to the protein it produces, which may have pharmaceutical value. Examples include Amgen Inc.'s two top-selling biotech drugs, Neupogen and Epogen, both of which fetch more than $500 million a year.



LIQUID CRYSTALLINE DNA: EVEN FASTER SEQUENCING IS ON THE HORIZON

ON INSTITUTE OF MOLECULAR BIOPHYS THE FLORIDA STATE UNIVERSITY

SHIFTING LANDSCAPE If genes get easy to sequence, courts may deem the data too "obvious" and deny patents for them

UNCHARTED TERRAIN. But what about drugs based on modifications of the protein? Or drugs aimed at particular parts of the biological pathways the genes control? These are still uncharted territories. And things get even murkier when companies decipher, or sequence, just part of a gene. Human Genome Sciences Inc. (HGS) has tens of thousands of "genes" in its database. But most, in fact, are fragments. Where HGS can demonstrate a useful function—say, as a diagnostic tool—the Patent & Trademark Office will probably grant protection. But each fragment will require individual testing and filing.

The changing landscape has led some to question the value of HGS's vast gene storehouse. When HGS began, "they clearly expected that the gene sequences themselves would have some proprietary value," says Viren Mehta, head of research at Mehta & Islay in New York. Now, he says, this looks like a long shot.

So HGS has shifted its focus from amassing sequences to developing and patenting diagnostics and drugs. "We aren't going to be able to protect 90% of human genes," admits HGS founder Wallace H. Steinberg.

Patent controversies can only get worse. As technology for finding and sequencing genes improves, public databases are being flooded with new gene sequences. Merck & Co.'s operation at Washington University alone is producing more than 4,000 a week. And even faster sequencing methods are on the horizon. Startup SEQ Ltd. in Princeton, N.J., boasts of an approach that will be a thousand times faster and a thousand times cheaper than today's technology.

It's also getting easier to snare full genes from fragments. So if the pieces happen to be in public databases, the Patent Office may consider them to be "prior art," making the full gene unpatentable. The same thing could happen if genes get too easy to find and sequence, says Washington patent lawyer Reid Adler: Courts may deem the information "obvious," and thus unprotectable.

With so much legal turmoil, "the potential is there for enormous patent battles," says Randal W. Scott, chief scientific officer at InCyte Pharmaceuticals Inc. Winning the Gene King throne, it seems, may depend as much on lawyers as it does on science.

By John Carey in Washington

Why a group called "The Raving Daves" could be the best thing that ever happened to your software.

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IS BELLSOUTH REALLY 'READY TO GET IT ON'?

Its phone turf under attack, the conservative giant begins girding for the interactive futu

If John L. Clendenin, chairman of Atlanta-based BellSouth Corp., ever had any doubts that rivals were invading his turf, they disappeared one day in mid-March. Calling home from a trip to Washington, Clendenin couldn't get through. So he tried his secretary, who told him that a fiber-optic cable in suburban Atlanta had been accidentally cut, blacking out BellSouth's service to the area around Clendenin's house. The culprit: MCI Communications Corp., which was installing new cable to better serve the lucrative region BellSouth now dominates. "It's ironic," admits Clendenin.

These days, cut phone lines are the least of Clendenin's worries. The longtime Bell executive sits atop the biggest—and most profitable—of the Baby Bells. But as telecommunications changes faster than Clendenin can say "Information Superhighway," potential short circuits abound. Competitors are angling for a big slice of BellSouth's juicy market. New wireless technologies could cut into BellSouth's dominance at home. And the company has been slow to jump into multimedia services, even as rivals such as Bell Atlantic Corp. and Pacific Telesis Group sprint into the interactive age.

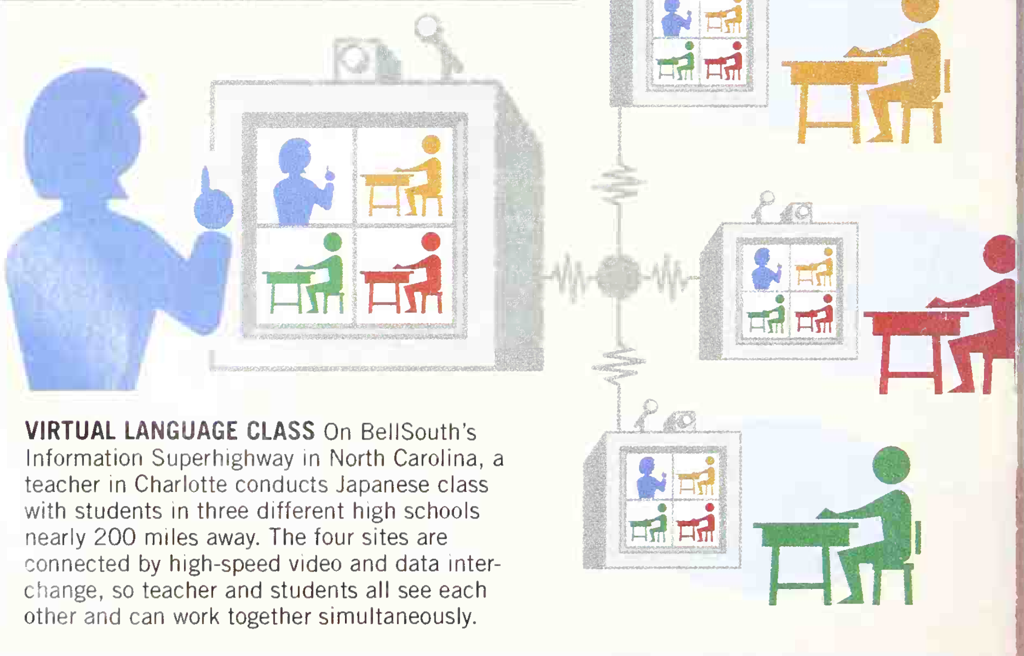
BellSouth has long been one of the industry's most conservative players. Thanks to its cozy berth in the nation's fastest-growing region—as well as a heavily protected regulatory environment—BellSouth has stuck closely to its core of providing local phone and cellular services. So far, that strategy has paid off: BellSouth's revenues, up 6%, to $16.8 billion, in 1994, were the highest of all the Baby Bells'—as were operating profits. Cost-cutting helped them to nearly double last year, to $4.1 billion.

But the healthy numbers won't last if BellSouth doesn't adjust quickly to the dramatic changes sweeping the telecommunications, cable, and entertainment industries. Digital technology is rapidly expanding the services phone companies can offer, while deregulation threatens to knock down the regulatory walls that have protected BellSouth's vast turf from competitors. Other Baby Bells are grabbing headlines with more dramatic plans to capitalize on the new opportunities. The question now is whether Clendenin's cautious approach will save BellSouth from throwing money at expensive Information Age pipe dreams or simply cause it to miss the multimedia boat.

While BellSouth is beginning to build multimedia "broadband" networks, it isn't spending anywhere near the $16 billion Pacific Telesis plans to ante up 2002. Nor has it invested directly i cable operator, as SBC Communicati Inc. and U S West have done. A while BellSouth recently announce new $500 million programming vent with Walt Disney, Ameritech, and S the effort trails that of a rival Bell c sortium, which recently scored a c by hiring former CBS Inc. Broadcast President Howard Stringer.

OVERSEAS MARGINS. Certainly, some c tion is warranted. With technology cha ing rapidly—industry leader Bell Atla just put the brakes on its plans to of video services to phone customers—Cl denin argues that his go-slow appro will help BellSouth avoid costly erro "We prefer to think of ourselves as di plined, not conservative," says the form Strategic Air Command pilot. BellSou remained mostly aloof from the rec federal auction of "personal communi

Teaching on the Infobahn



VIRTUAL LANGUAGE CLASS On BellSouth's Information Superhighway in North Carolina, a teacher in Charlotte conducts Japanese class with students in three different high schools nearly 200 miles away. The four sites are connected by high-speed video and data interchange, so teacher and students all see each other and can work together simultaneously.

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tions services" licenses, for which rivals paid a total of $7.7 billion. Although Nynex, Bell Atlantic, and others count on PCS to create cheaper wireless networks that will compete with cellular, Clendenin believes billions will be lost on the unproven technology as the industry shakes out. "The big PCS winners are going to be like the dog that caught the bus," says Clendenin. "They'll wish they hadn't given chase."

Clendenin isn't sold on PCS: He says the auction winners will "wish they hadn't given chase"

Still, with its core business under attack, BellSouth is beginning to shed its conservatism. Clendenin has started investing more aggressively in new ventures, from $70 million allocated to build, in North Carolina, the first statewide Info Highway in the U.S. to its $125 million stake in the Disney partnership. And in wireless telephony, BellSouth has moved more rapidly overseas than any competitor, investing more than $900 million to join ventures in 16 countries in South America, Asia, the Middle East, and Europe. Clendenin prefers to place his bets on fast-growing telephone demand in emerging markets, where gross margins can hit 45%. "BellSouth is very particular and very cautious in deciding where to put its money," says David G. Lindsay, associate partner at Andersen Consulting. "But when they determine it's the right thing to do, they are very aggressive."

SLASHING JOBS. Nowhere is that clearer than in the approach BellSouth has taken in setting up an extensive high-speed data and video network in North Carolina. The North Carolina I-Way—which BellSouth built with partners GTE and Sprint—can carry the image of a cancer victim's brain from a rural hospital in Lumberton, N.C., to the office of cancer specialist Dr. Julian Rosenman at the University of North Carolina Hospital. Maria Domoto, a Japanese professor from the University of North Carolina at Charlotte, uses the network to teach Japanese to high school students simultaneously in three cities.

By providing such services first to state institutions and universities centered around North Carolina's Research Triangle, BellSouth claims it has generated strong revenues—and profits—from the start. It recently won a contract to move the technology into Kentucky and has plans to sell the network to other states as well. With the states as anchor tenants, BellSouth then hopes to offer the technology to commercial customers.

Even as it gains customers at the high end, however, BellSouth risks losing them at the low end as new rivals hit its home turf. Clendenin is slashing costs. Over the past two years he has trimmed 10,200 jobs and is expected to cut BellSouth's telephone workforce by an additional 15,000 positions, to 56,000, by 1998. Since late 1992, BellSouth has also shuttered 70% of its 288 operations centers as it consolidated inefficient field offices into more centralized service centers. The upshot: Operating costs, which had been growing rapidly, stayed steady last year. "The competitive game is coming," says F. Duane Ackerman, BellSouth's COO. "We're ready to get it on."

So, too, are the new competitors. Indeed, U S West has already begun its onslaught in Atlanta. After buying two local cable companies with nearly 500,000 customers last year, it's spending $300 million to upgrade its network to carry cable and multimedia offerings. If Georgia opens up phone competition this year, as expected, U S West could soon be competing for customers in BellSouth's hometown. "We expect to move quickly and aggressively," says Steven E. Andrews, president of Southern Multimedia, U S West's Georgia subsidiary. "I hate to lose. I'm planning to win." And long-distance rivals Sprint, AT&T, and MCI are also set to attack local phone markets. Along with newcomers—from cable operators to giant Microsoft Corp.—all want to compete with the Bells.

A TORTOISE SPEEDS UP

THE INFO HIGHWAY With partners GTE and Sprint, BellSouth has built the nation's first statewide Information Superhighway in North Carolina, allowing hospitals, universities, and other institutions to transmit video and data over cable. Launch of commercial services is planned.

ENTERTAINMENT After months of negotiations, BellSouth, Disney, and two other Baby Bells recently agreed to invest $500 million in a joint venture to produce interactive entertainment programs that will be distributed through their phone lines as well as cable systems.

MULTIMEDIA BellSouth is building the system to run a long-awaited trial of new interactive multimedia services in an Atlanta suburb. By fall, BellSouth plans to deliver movies on demand, video games, and shopping over its high-capacity telephone wires. Eventually, 30 cities may join in.

BellSouth will also have to scram
if it hopes to keep up in the multime
race. While multimedia trials, such
Time Warner Inc.'s in Orlando and B
Atlantic's in Dover Township, N.J.,
already up and running, BellSouth
just now building its own test for 12,
homes in Chamblee, Ga. For the
ment, BellSouth will have to buy all
programming it pipes over the fiber-
tic line, but that will change as its
programming venture comes onstre

To get the most out of the Disney
liance, BellSouth executives will clos
study what customers in Chamblee
elsewhere are willing to pay for
souped-up services. The venture p
ners plan to create a package of servi
such as movies on demand, video ga
banking, and home shopping. William
Redderson, senior vice-president
broadband strategies, says BellSouth
already mapping out 30 top market
can penetrate quickly but will do so o
once the economics are clear.

"LARGER PIE." BellSouth's competit
picture in wireless communications
just as muddy. Over the next seve
years, the key factor will be PCS, a wi
less technology that has a smaller ra
than traditional cellular phones but
cheaper to operate. Although BellSou
now dominates the cellular market in
region, it will come under attack fr
the likes of GTE Macro Communicatio
which is planning aggressive expansi
after paying $19.4 million for a license
operate PCS networks in Atlanta a
three other cities. "We're kind of sa
vating when we look at it," says C.
Waylan, GTE's executive vice-presiden

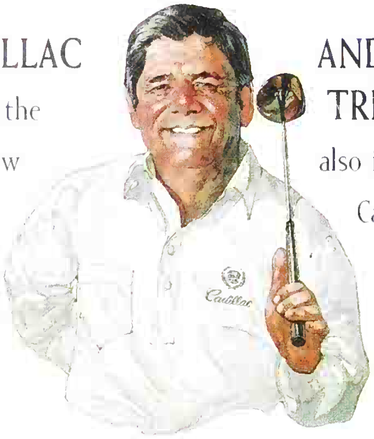
Still, Clendenin is hardly standing st
He may not have faith in PCS, but Be
South will spend $7
million by 1996 to u-
grade its cellular n
work from analog to di
ital. Although analys
say BellSouth is certa
to lose some custome
as rivals swoop in, it w
gain others as it begi
to offer cable and oth
services. "BellSouth m
have a smaller share
some areas," says Dav
J. Roddy, chief telecor
munications economist
Deloitte & Touche. "B
it's a much larger p
overall." The question,
course, is how it all ge
sliced up.

*By David Greisi
in Atlanta, with Kat
Rebello in San Francis*

NOW THE INFORMATION HIGHWAY HAS A PASSING LANE

SEVILLE STS

AND A DRIVING RANGE.



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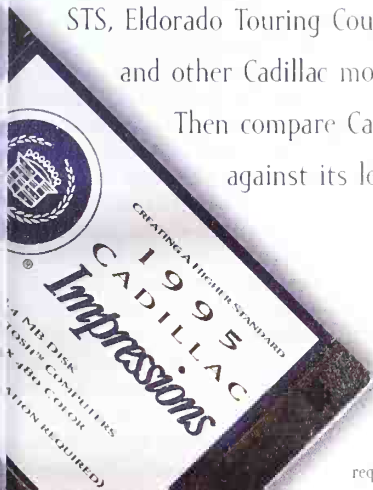
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DEALS

BUY 'EM OUT, THEN BUILD 'EM UP

LBO firms are consolidating even mom-and-pop outfits

Back in 1985, leveraged buyout firms were poring over spreadsheet databases looking for companies to buy and bust up. Now, many of those same firms, plus a whole new crop of others, are employing a strategy that's just as profitable and probably more productive: They're scouring the country for companies to buy out and build up.

Using a technique known variously as "platform investing" or "leveraged buildup," buyout concerns are jump-starting the consolidation of dozens of highly fragmented, inefficient, mom-and-pop industries. Sometimes, investors and entrepreneurs claim, they achieve returns that approach or exceed the 30%-plus levels earned by the LBO-breakup crowd in the 1980s.

COMMON THREAD. These mostly service-sector industries range from funeral homes, golf resorts, and health clubs to landfill sites, medical practices, and antenna towers. If there is a common thread, it is that these fields have traditionally lacked strong management and surplus capital. For the most part, they are industries where consolidation can yield big economies of scale that can be recouped by investors. Says Carl D. Thoma, co-founder of Golder, Thoma, Cressey, Rauner Inc. (GTCR), which pioneered these transactions: "It's one of the few niches t where you can ge above-average retu

While consolida of U.S. industry nothing new, sev recent forces appea be driving this wave of grassr combinations. Fir the scarcity of la undervalued pu companies where q gains can be real through LBOs breakups. Anothe the vast amount of vate equity capital lately has been marked by public p sion plans for nontr tional investme Equally important, the Informat Highway has not only created en industries that can benefit from cons dation but has also provided ways manage service businesses from cen locations.

MAGIC NUMBER. The transactions ty cally work this way: Investors bu small company—usually one with more than $15 million in revenues—t serves as a "platform" to which sma companies in the same industry can added. Because big investors don't u ally chase these companies, they can bought for less than five times cash fl compared with six times cash flow higher for more competitive deals. Wi each new acquisition, the compa wrings out more savings and boosts leverage from, say, 50% debt to as mu as 75% or more. And within a f years, backers hope, the company w expand to the magic $100 million revenue threshold where they can successfully take it public.

To be sure, the road to $1 million in revenues isn't alwa smooth. Investors have fou that consolidation simply does work in some industries. The dogs: dry cleaners, service s tions, and restaurants. Says S phen Galante, editor of *Priva Equity Analyst*, an industr newsletter: "Either the econ mies aren't there, or they do lend themselves to centraliz management."

Chicago's GTCR, which beg packaging small companies in t early 1980s, now has about $4 million invested in such ventur says Thoma. Its first and m prominent coup was Paging Ne

Gains from Bulking Up

INDUSTRY	KEY BENEFIT OF CONSOLIDATION
ANTENNA TOWERS	Frees up capital and management time for wireless communications operators
FUNERAL HOMES	Yields greater discounts on coffins, supplies, and equipment
HEALTH CLUBS	Spreads regional marketing and advertising costs over more facilities
LANDFILL SITES	Lets operators cope with the new environmental and regulatory demands
PHYSICIAN GROUP PRACTICES	Reduces overhead and costs of medical procedures

DATA: BUSINESS WEEK

k Inc. (PageNet), which began as a
ll acquisition in 1981 and now leads
pager industry. Others include
ne Succession Inc., a 135-unit funer-
ome chain; a retail-propane distrib-
; and the nation's second-biggest
ı-care outfit. Says Thoma: "You get
edible synergies by combining three
panies in the same market."

'hat's what's behind the plan by Mc-
vn De Leeuw & Co. to expand San
ncisco's 24-Hour Nautilus Fitness
ıters, a 34-unit chain in which it ac-
'ed a two-thirds stake late last year.
chain is now the dominant player
Northern California, but the firm
ıts to develop it into the nation's
2 gym in two years. (Bally's Health
Tennis Corp. is No. 1.) McCown De
uw is currently looking into heating
air-conditioning supply, and direct-
rketing.

(E HERDING CATS." While the move to
rge health-maintenance organizations
hospitals is well under way, the con-
dation of group physicians' practices
specialty companies has barely be-
ı. One force behind the creation of
ionwide physician companies is Welsh,
rson, Anderson & Stowe, a New York
ıture-capital and buyout firm that has
ested in six such companies. Two of
m—MedCath Inc., a cardiology-care
npany, and EmCare Holdings Inc., an
ergency-care-management concern—
nt public in December. Two others,
luding American Oncology Resources
., a collection of 10 group practices,
in registration.

Deals involving doctors are not al-
ıys easy to bring off. "Managing phy-
ians is like herding cats," says gener-
partner Russell L. Carson. But the
onomics are still powerful. Besides
hieving cost savings through increased
rchasing power, standardized proce-
ıres, and lower malpractice-insurance
emiums, these companies are in a bet-
r position than single group practices
compete for third-party-payer con-
acts, Carson says.

MedCath, which started in 1988 as a
obile heart-diagnostic firm, has more
cently focused on cutting costs by in-
grating cardiology practices with spe-
alty heart hospitals. Last year, says
ephen R. Puckett, chairman and pres-
ent, the company acquired its first
actice—of 45 doctors—and in Octo-
er, it expects to open its first hospital.
his strategy, he says, will cut labor
sts to 26% of revenue, compared with
5% at some general-care hospitals.

Build-up deals have their share of
ilures. Brentwood Associates, a 25-
ear-old buyout firm in Los Angeles,
aims successes in the cellular-communi-
ation and trade-magazine businesses.
ut general partner William M. Barnum Jr. admits that its Acme Holdings Inc., a troubled equipment-rental concern in the Sunbelt, has not fared so well. Battered by recent California recession, among other woes, he says, the company last year defaulted on its $78 million in junk bonds. One lesson, says Barnum: "Geographic diversification is something you should strive for."

As it becomes more popular, the build-up game could become as risky as the bust-up game of the 1980s. But because of its more agreeable impact on acquirees, building up is likely to be a lot more beneficial for dealmakers' images.

By Phillip L. Zweig in New York

AT THE FOOD CHAINS, IT'S ALL GULP AND SWALLOW

The hottest action in service industry deal-making these days is down at the supermarket. Such big-time investors as Kohlberg Kravis Roberts & Co., George Soros, and Leon Black have been riding a wild wave of acquisitions in recent months. Some of the buyouts are buildups, where the owners hope to cash in on the classic benefits of market concentration: economies of scale, knocking out smaller, weaker competitors, and carrying more clout with suppliers.

In recent weeks, KKR has agreed to pony up $1.2 billion for Bruno's Inc., a 254-store grocery chain in Birmingham, Ala. A few days later, KKR's Stop & Shop Co. unit said it would merge with Purity in North Billerica, Mass. And earlier this year, Los Angeles' Yucaipa Cos., with strong financial backing from Soros and Black, said it would buy Chicago's Dominick's Finer Foods Inc. for $750 million. Yucaipa is also doing buildups. Over the past eight years, it has acquired numerous small local chains and is consolidating them into a few big ones, mainly units of California's Ralphs Grocery Co., with which Yucaipa has recently merged in a $1.5 billion deal.

Why the sudden flurry of deals? It's mainly caused by market conditions: low multiples, low inflation in food prices, and new technologies. "The time has never been better," says Yucaipa Chairman Ronald W. Burkle. "With technology, there are a lot of things we can do now that would have been impossible a few years ago."

WAFER-THIN MARGINS. Like Wal-Mart Stores Inc. and Toys 'R' Us Inc. before, supermarket chains are turning to huge automated satellite distribution centers to drive down costs. At some megamarkets, such as Yucaipa's Food 4 Less chain, distribution centers have been done away with altogether in favor of automated racking systems at the stores. Big chains with strong cash flow are also investing in sophisticated information systems that handle everything from targeting advertising by studying consumer buying patterns to linking up with frequent-flier programs.

THE RIPEST, TASTIEST FRUITS

BIG AND JUICY: *Takeovers bring economies of scale*

ALAN LEVENSON

Burkle insists that more consolidation is on the way. One reason: Groceries make their money on wafer-thin margins—just 1% to 2%. So because there are economies of scale, larger chains fare better. "There's only room for very large or very small speciality chains," says James S. Schmitt, an analyst at Westcountry Financial. "Middle-sized companies are getting squeezed out."

As the big players keep rounding up more and more chains and keep streamlining, they can feel confident that their cash flow will steadily increase. "People have to eat," says KKR general partner Paul E. Raether. But for quite some time to come, the biggest bites will be taken by the dealmakers.

By Eric Schine in Los Angeles, with Leah Nathans Spiro in New York

NEWLY FEISTY: *CEO Hough now se salvation in cutting government ti*

LAMBERT

SHAREHOLDER REVOLTS

THE BEES IN SALLIE MAE'S BONNET

Irked investors press for change at the student-loan marketer

The Student Loan Marketing Assn.'s 1994 annual report opens with a simple but unwittingly prescient phrase: "Times change, and we change with them." The quotation refers to the Washington (D.C.) company's efforts to adapt to a Clinton Administration program for direct government loans to students—a frontal attack on the core business of the congressionally created but shareholder-owned company known as Sallie Mae. Recently, though, the report's language has taken on new meaning: Dissident shareholders are calling for a major overhaul of the two-decades-old company.

On Apr. 10, four investors, including two former Sallie Mae executives, announced they would run for seats on the company's 21-member board. And on Apr. 25, the dissidents, led by former Sallie Mae Chief Operating Officer Albert L. Lord, said they may add four more names to their slate before the annual meeting this month, a sign that they believe they have substantial investor support. They have good reason: Sallie's stock price has plummeted from $74.50 in 1993 to $39.75, while profits slumped 6% last year, to $403 million. "Times have changed, and this company hasn't changed at all," rails one major institutional investor, mocking Sallie's claim. "There is incredible investor dissatisfaction."

Shaking Up Sallie Mae

Dissident shareholders' ideas for restructuring

- **SLIM DOWN** the company's $54 billion balance sheet, partly by dumping low-yielding investments
- **SPIN OFF** the healthy loan-servicing operation
- **BUY BACK** more stock than the 3-5 million shares already planned
- **CUT OUT** some operating expenses, including fees to lobbyists and consultants

That's a big change from Sallie's salad days. The company's mission is to provide liquidity to the student-loan market by buying loans from banks that make them. Sallie and its shareholders profited handsomely in the 1980s and early 1990s, in part because an implicit government guarantee enables the company to borrow at very low rates. But the company's profitability—and hefty salaries for executives—eventually made it a target in Washington.

In 1993, the Clintonites pushed through Congress the direct lending plan, uring it would be simpler for stude and cheaper for taxpayers. Direct ernment student lending is expectec rise to 40% of the market in the 19 96 academic year from a mere 5% the current year. The Administrat also has slapped onerous new fees Sallie, hurting its margins further.

Lord thinks the company needs a jor strategic shift to regain its footi In some ways, he's a surprising in gent. He and Sallie Mae CEO Lawre A. Hough were friends as they worl their way up the ranks. They live t miles apart, and their families h spent Christmas Eves together.

"POTENTIAL RETRIBUTION." Lord left company in January, 1994, though, part because of differences with Hou That split reflects the issues Lord now raising. He is calling for Sallie sell some of the student loans on books. "We should have been securi ing loans two years ago," he declar He also would shrink the company's billion investment portfolio and consi spinning off its loan-servicing operati He thinks Sallie could then use the p ceeds to buy back even more sha than the company now plans, boost the stock price. Sanford C. Bernst & Co. analyst Jonathan Gray says su moves make sense. "All of these id should be looked at," he says.

Hough says he is looking for long term solutions. He sees Sallie's real s vation in removing all ties to the g ernment. He figures that as independent entity, the company co aggressively pursue new business. A he warns that federal policymakers, w would need to approve full privati tion, could view a spinoff of the serv ing operation as an attempt to circu vent their authority. "The reality is invites potential retribution," he say

Even so, Hough is showing a n feistiness. On Apr. 14, Sallie sued t Education Dept., arguing that a imposed in 1993 is illegal because doesn't apply to other holders of s dent loans.

Some of the dissidents are enco aged by Sallie's newfound chutzpah. B they don't think it's enough. The race on to prove who is best suited change Sallie's direction. Already, t stock has risen 10% since the boa slate was announced. Regardless which side emerges victorious, Sal Mae investors may be the real winne

By Amy Barrett in Washingt

HOLLYWOOD ADVENTURE OR DIEHARDS ONLY?

e payoff from Andy Vajna's Cinergi may not thrill investors

ndy Vajna has always loved a good adventure. The 50-year-old Hollywood producer still regales friends h stories of how, as a 12-year-old dur- Hungary's 1956 uprising, he crawled ough the snow to escape Soviet pers. Since 1981, Vajna's adventures e been played out on the big screen the likes of Sylvester Stallone, Arnold iwarzenegger, and Mel Gibson. Big rs. Big budgets. And if his former npany, perennially cash-strapped *mbo* producer Carolco Pictures Inc., is indication, big problems.

Now, Vajna, who in 1989 launched a v company, Cinergi Pictures Enter- ment Inc., is asking the public to 1 him in another adventure. In late ril, Cinergi's management team and tWest Securities Corp. are expected begin a road show to trumpet a 3 lion-share secondary offering to raise expected $30 million.

LLYWOOD DUSTBIN. Cinergi's profit formance hasn't been as big as Vaj- s stars and budgets, though. He had take $6 million in write-downs last ır for such flops as *Renaissance Man* 1 *The Color of Night*. In 1994, after 2 million in losses in the previous ee years, the company earned $2.9 lion on revenues of $109 million. Still, nergi's stock price has inched up past t on advance buzz about two mus- -bound flicks scheduled for this sum- r: Bruce Willis in the third *Die Hard* stallment, *Die Hard With A ngeance*, and *Judge Dredd*, a futuristic cop movie starring *Rambo* alum Sylvester Stallone. Cost: $160 million. Stallone and Willis will each get nearly $15 million. Vajna himself draws a $1 million annual salary, up to $250,000 annually in producer fees, and 3% of the films' revenues after paying back production and marketing costs.

CINERGI: ONE FOR FOUR

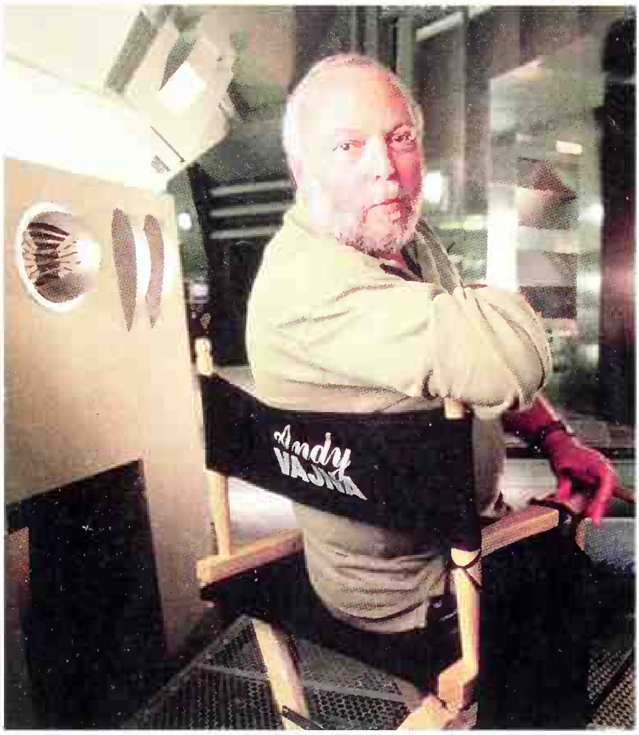
	YEAR	BUDGET	BOX OFFICE
		MILLIONS OF DOLLARS	
EDICINE MAN	1992	$40	$45
OMBSTONE	1993	28	56
ENAISSANCE MAN	1994	35	24
HE COLOR OF NIGHT	1994	35	20
UPCOMING			
IE HARD WITH VENGEANCE	May 19	$83	
UDGE DREDD	June 30	76	
HE SCARLET LETTER	Fall	45	

DATA: *THE HOLLYWOOD REPORTER*, BW EST

It's not clear how much money will be left to trickle down to investors. "They're probably going to be big films," says John Krier, president of box-office analyst Exhibitor Relations Co. "But they'd have to do nearly $200 million to recover their costs." With a summer already loaded with such heavy action flicks as *Batman Forever* and *Crimson Tide*, that's unlikely.

Cinergi executives, who declined to comment for this article, see things differently. Their risks, they contend in Securities & Exchange Commission filings, are minimal since most of the costs have already been advanced from U.S. and foreign distributors. Walt Disney Co. has agreed to put up nearly one-third of the costs for Cinergi's next 21 big-budget films in return for 15% of the take from the U.S. and Canada.

Yet the dustbin of Hollywood is littered with such independents as Dino DeLaurentiis, Weintraub Entertainment Group, Cannon Pictures—and Carolco, which Vajna left in 1989, a few years before a big debt-financed expansion pushed the company near the brink of bankruptcy. Reeling from the delay of its own big-budget film, the $75 million *Cutthroat Island*, Carolco said on Apr. 17 that it didn't have "sufficient cash resources" and was considering a Chapter 11 filing.



POST-*RAMBO*: *Vajna's stars are huge, but profits aren't*

MITCH JENKINS/KATZ/SABA

Vajna, who collected $70 million in cash and stock when he left Carolco, has insisted he won't repeat Carolco's mistakes. His executives have told investors they will keep overhead and debt under control. To show that Cinergi isn't Carolco II, the company's compensation committee made Vajna give back a lucrative fringe-benefit package that included a $1,000-a-month car allowance, use of a yacht during the Cannes Film Festival, and even a first-class ticket for his longtime girlfriend when she accompanies him on business trips.

FLYING MOTORCYCLE. In making movies, though, Vajna isn't exactly cutting corners. He ordered up an extra $3 million special-effects image of Stallone riding a flying motorcycle as he battles villains in *Judge Dredd*. Vajna agreed to pay Demi Moore $5 million to star in *The Scarlet Letter* later this year, bringing to $204 million the company's tab for its three big 1994 flicks. Unable to get foreign buyers to foot the entire bill, Cinergi anted up $28 million of its own funds. And Vajna agreed to finance director Oliver Stone's $43 million *Nixon* epic when its initial backer refused to go over $35 million. Bolstered with a $150 million line of credit arranged last summer with Chemical Bank, Vajna wants to increase from three to five the number of films he'll make each year.

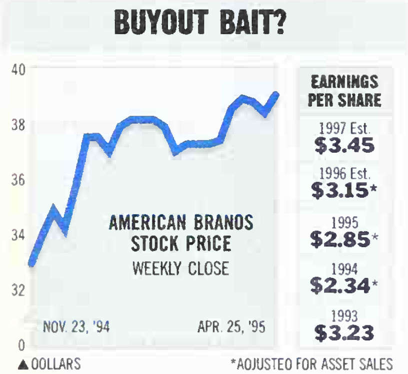
Vajna's most hair-raising adventures in coming years, though, may be not on the silver screen but in Cinergi's balance sheet.

By Ronald Grover in Santa Monica, Calif.

BY GENE G. MARCIAL

SELLING FRENZY AT AMERICAN BRANDS

When American Brands (AMB) first-quarter earnings, announced on Apr. 24, failed to meet the Street's consensus estimate, the stock headed up—instead of down. That was no fluke: Several savvy money pros insist that the stock has been on the rise for one particular reason: American Brands is buyout-bound, unless it continues selling off its assets. They figure the shares, currently trading at 39, are worth 55 to 60.



DATA: BLOOMBERG FINANCIAL MARKETS, GABELLI & CO.

One of the few remaining giant conglomerates, American Brands in December sold its American Tobacco Co. unit to Britain's BAT Industries for $1 billion. And in January, it sold its Franklin Life Insurance division to American General for $1.17 billion.

A conglomerate based overseas, says a New York takeover investor, is contemplating making a bid to buy American Brands, whose assets are valued by Gabelli & Co. analyst Bob Leininger at 58 a share. This prospective suitor usually buys asset-rich, under-managed companies and then sells off some of the assets. Another interested party is a group that specializes in leveraged buyouts. This group puts the value of the company at 60.

American Brands has yet to sell Gallaher, whose brands—including Benson & Hedges and Silk Cut cigarettes—control nearly 42% of Britain's tobacco market. This is the "division that American Brands will likely sell off next," says Leininger—unless an LBO intervenes.

American Brands three fastest-growing businesses—hardware and home-improvement products, golf and leisure items, and office equipment—currently account for about 33% of operating earnings, according to Leininger. American Brands is also a major player in the distilled-spirits business. This unit includes Jim Beam Brands, the second-largest producer of spirits in the U.S. The unit's products include Jim Beam, the largest-selling bourbon; Gilbey's gin and vodka; and Windsor Supreme whiskey.

American Brands "is an excellent target for an LBO," says Leininger, "because all five remaining divisions lead in their markets and are strong cash-flow generators." These divisions, in fact, don't benefit from any synergistic link among them, explains the analyst. So unless management does it, a buyer will likely come in and break up the company to realize the intrinsic value of the assets. American Brands declined comment.

READY TO SIZZLE IN THE KITCHEN

Investment mogul Avi Glazer is a silent stakeholder who has scored heady 30% to 60% annual returns by taking controlling stakes in companies he sees as undervalued. Some of the outfits whose shares he has bought and sold for tantalizing gains include Harley Davidson, Tonka, and Formica. So what's Glazer's latest catch? One stock he says promises to be a home run: Specialty Equipment (SPEQ), a big maker of commercial and institutional food-service equipment.

The company's Taylor unit is the largest U.S. maker of soft-ice-cream machines, which are used, for instance, at McDonald's restaurants—along with Taylor cooking grills. Taylor also makes "reach-in" glass-door refrigerators, used to display beverages in supermarkets and fast-food places.

Already, the shares have perked up—to 11¾ on Apr. 25, from 9 early in the year. Glazer has taken a 45% stake and describes the company as "one of the clearest cases of unrecognized value on the Street." What's its secret?

Specialty Equipment has posted paper losses for the past three years because of noncash write-downs resulting from the company's emergence from Chapter 11 bankruptcy three years ago. Without them, the company would have earned 59¢ a share in fiscal 1994 and 99¢ in fiscal 1995. In 1996, earnings are expected to increase to $1.25, according to one insider.

Glazer, who started buying when th stock was at 5, says the write-down will end in the current quarter. He expects the stock to hit 20 in a year.

HIGH-STEPPING SANDALS

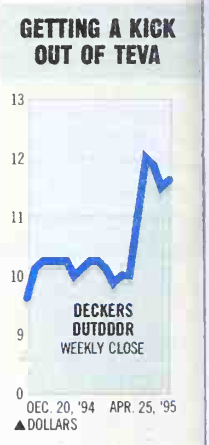
For a while, the stock of Deckers Outdoor (DECK) took a shellacking o Wall Street because of fear that Nik and Reebok would run it out of business. That hasn't happened. Deckers sandals and shoes have been a real kicker: The stock rebounded from 11 in December to a high of 16¼ on Apr. 25.

One reason: More and more investors are starting to recognize that Deckers' flagship products—Teva sports sandals—have become the industry standard. "High functionality due to patented strapping has made this the sandal of choice for sports enthusiasts," explains Pete Castellanos, an analyst at Cruttenden.

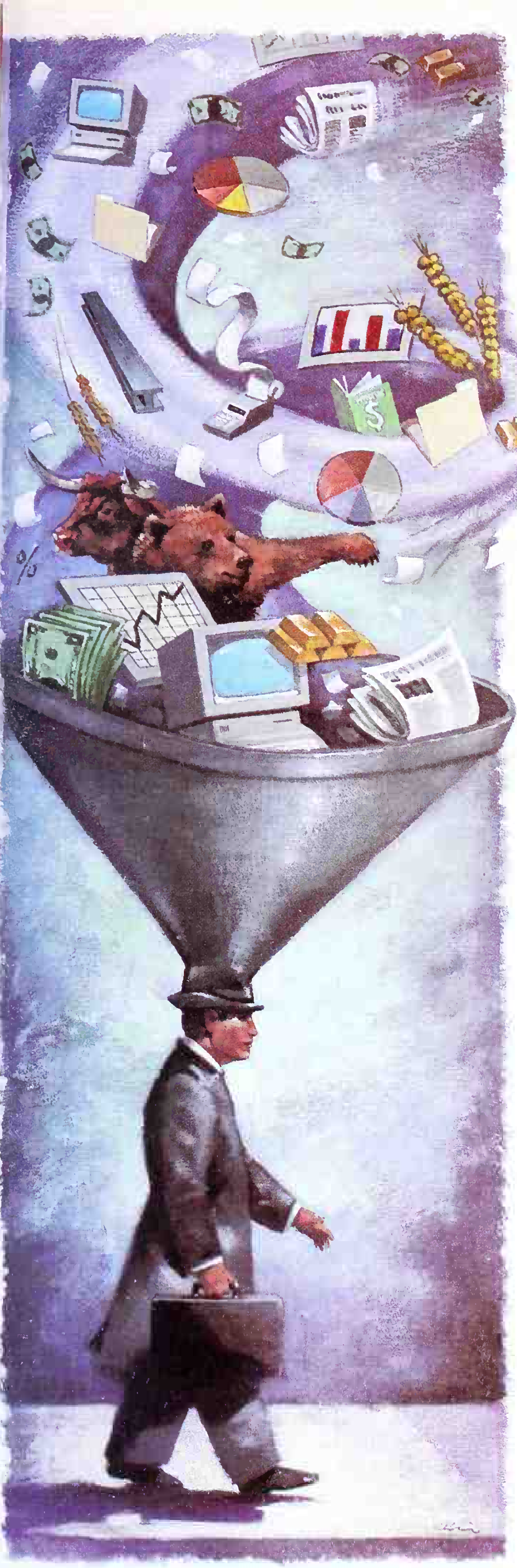
For a long while, the stock was overlooked because Deckers was seen as a one-product outfit—with Teva garnering 80% of sales last year, says Allison Malkin of Evergreen Fund, which has accumulated a 3% stake. She thinks the market has yet to recognize Deckers' other product: Simple shoes, an athletic line that features an understated, casual style.

Indeed, Deckers sales and earnings have been on the rise. Kemper Securities analyst Kevin Dukesherer figures revenues will jump to $105 million this year, up from 1994's $85 million. And he sees the earnings climbing to $1.35 this year and to $1.65 in 1996, vs. last year's $1.09.

One New York money manager thinks that if Deckers sustains its fast growth, either Nike or Reebok may gobble it up as a quick way to step into sandals. In a buyout, he says, the stock is worth 30 a share. Deckers Chairman and President Doug Otto wouldn't say whether he has been approached by Nike or Reebok. Reebok declined comment. Nike didn't respond.



DATA: BLOOMBERG FINANCIAL MARKETS



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ESSAY

WHO SPEAKS FOR AMERICA?

The Right vs. the news Establishment

Wesley Pruden, the avowedly conservative editor-in-chief of the right-wing *Washington Times*, has spent a cold decade in the shadow of *The Washington Post*. So it should come as no surprise in these days of Republican ascendancy that Pruden takes special pleasure in needling his storied crosstown rival. "I get the feeling that since the election, the top editors at *The Washington Post* are wandering around like a duck hit on the head with a wooden spoon," Pruden says in his deep Arkansas drawl. "They're still trying to figure out what happened."

Post Executive Editor Leonard Downie Jr. responds that his head feels fine, thank you. "That's just silly," he says of Pruden's snipe, insisting that the *Post*'s Capitol Hill coverage has been thorough and aggressive since November. Still, during the first 100 days of the 104th Congress, it is widely acknowledged that Pruden's paper has often had better sources among the GOP than its competition. Circulation has jumped an estimated 9% over the past year and so has its prestige.

Downie is quick to point out that average daily circulation of 94,223 for the *Times* remains puny compared with the *Post*'s 840,232. And despite the *Post*'s lack of growth over the past year, there's little question which paper the great majority of Washingtonians turn to every morning. Yet Pruden's momentum demonstrates a key point about the business of delivering news these days: Many people—conservatives in particular—are convinced that traditional media are not meeting all their needs. And their discontent is seeding a new crop of information sources that have growing pull and power.

Indeed, there's plenty of evidence that TV networks and Establishment newspapers are quickly losing their elite status as the nation's favored opinion-makers. In a free market for information, Rush Limbaugh and Oliver North are competing effectively for time and influence against Establishment news outlets such as *The New York Times* and NBC News. While there's no doubt the old media remain extremely influential, Americans no longer rely on a beloved "Father Cronkite" to tell them what is news. "The gatekeepers have a lot less power than they used to," says Howard Kurtz who covers media for *The Washington Post*.

OUT OF TOUCH

> "Most reporters, when covering the rise of the religious right, can make no human connection with these people"
>
> — DAVID FRUM, Conservative journalist

This has become a vexing source of controversy—espec
ly in light of the tragedy in Oklahoma City. On the
hand, many of the new media are giving voice to ideas t
large swaths of people feel are neglected by traditional o
lets. Media such as talk shows and the Internet offer a tar
lizing populist ideal: a chance to participate in the news.
in the Wild West atmosphere of new media, where journalis
conventions often don't exist, responsible news analysis too
ten devolves into polemical ranting. For every conservat
gripe that the traditional media are too liberal there is a c
responding sense of unease that talk shows empower fri
groups and magnify their unchecked rage.

PANIC AND THREATS. This line of reasoning, of course, is
old as the soapbox. Did Abbie Hoffman's liberal rantings
spire the radical Weathermen in the 1960s? Does Ice
gangsta rap incite violence in urban youth today? The fugit
letter bomber who killed a timber lobbyist in California
pears from his writings to be a left-wing environmental
archist. Was he (or she) influenced by some green polemic
the spotted owl? There is no answer to any of these qu
tions. But the fact remains that the First Amendment p
vents even the government from tampering with the mar
forces that shape media. Panic and threats—the Preside
notwithstanding—do little. A popular backlash against
Gordon Liddy's instructions on how best to shoot a fede
agent would more likely sober much of the talk radio wo

The important thing to remember is that the new n
dia—from *The Washington Times* to the ubiquitous voice

ɔaugh—exist in response to consumer demand. Our infor-on sources mirror ourselves. Technology, from the growth e number of cable-TV channels to the satellite distribution yndicated radio shows to the proliferation of desktop-ished newsletters, has led to a boom in alternatives to the ıs quo. The interesting thing is that most of them share ıin characteristics: They are often interactive, they are un-iguous politically, and they pride themselves on being er." "The mainstream media tend to say, 'This is the the world is,'" posits Terry Eastland, editor of *Forbes ia Critic*. "To the extent that people have gotten tired of , they've become candidates to go somewhere else."

ı defense of the traditional media, most critics agree the big urban dailies and the networks remain the most essionally run, objective sources of news available. Despite ess griping to the contrary, there's little hard evidence they truly do exhibit a "liberal" bias in everyday politi-overage. During the turbulent first 100 days of the 104th gress, for instance, the independent Center for Media & lic Affairs found that the networks slammed House Speak-Newt Gingrich 61% of the time. President Clinton got ımered 62% of the time. Says the *Post*'s Kurtz: "While I k there is bias toward conflict and bad news, it is not ılogical. Everybody gets bashed."

Nevertheless, it's clear that Americans in increasing num-s feel misunderstood by the traditional media. And in ıe cases, the media do exhibit a bias toward what they erstand most, their status quo. In an increasingly di-se country without a monolithic set of values, blind spots an occupational hazard. Critics say demographics alone l to an inevitable disconnection between media and audience. The elite press corps, they point out, consists mostly of well-paid, highly educated urban professionals. They often have a secular, cosmopolitan outlook and tend to socialize with people like themselves. "If you ask a Washington journalist who his friends are, he'll say other journalists," says the Brookings Institution's Stephen Hess, who has studied the Capital press corps extensively.

Conservative critics contend this gives news coverage an urban, secular sensibility. On social issues such as gay rights or abortion, journalists sway to the left. On economic coverage, they stay at the center or swing slightly right, as befits their economic circumstances. This leads to occasional mistakes. In 1990, for example, *The Washington Post* failed to cover a huge pro-life march on the capital that got plenty of attention elsewhere. *Post* editor Downie's apology included the admission that not many *Post* staffers were pro-life. Few, he added, had spent much time with anybody who was.

FIGHTING BLINDNESS. David Frum, a former *Wall Street Journal* editorialist and the author of *Dead Right*, believes that most liberal bias in newsrooms stems from this lack of empathy for conservative points of view. "Most reporters, when covering the rise of the religious right, can make no human connection with these people," he says. "They see them as dangerous." Downie, for one, says he actively fights such blindness: He points proudly to a *Post* series last year that took a close look at the religious right and its concerns.

Covering a group like the religious right, however, is different from catering to the religious right. And the space in between is what gives editors headaches. Partly because it has a large audience interested in gay issues, *The New York Times* assigns a reporter to cover gay and lesbian topics. In March, the paper ran a story headlined "In Sickness and in Health: Building Loving Relationships When One Partner Has HIV." To many Americans—including religious conservatives—such stories would not only be uninteresting, they would be offensive. "If they want to run stories like that, that's their business," says Pruden. "But I know our readers, and they don't want those kinds of stories."

EQUAL TIME

"While I think there is bias toward conflict and bad news, it is not ideological. Everybody gets bashed"

— HOWARD KURTZ,
Washington Post media critic

Increasingly, that's the point. Despite their best efforts, the traditional media can't please everybody all the time—and they shouldn't have to. It's easy to forget that already, more people around the country each day read *The Wall Street Journal* with its polemical right-wing editorial page than any other newspaper. The new media tend to satisfy consumer demand for information sources that confirm their own leanings. "We're on the edge of a new era in journalism," says critic Eastland. "It's more populist and more pointed."

As the *Post*'s Downie points out, many of the new outlets don't even pretend to aspire to the same paradigm of impartial news gathering that mainstream media cling to. Being different is precisely why they draw an audience. Pruden, for instance, makes no attempt to mask his conservatism. Like any editor, he says, he insists on balance within stories. But what gets played on the front page is likely to reflect right-wing thinking. "Our conservative outlook shows up in story selec-

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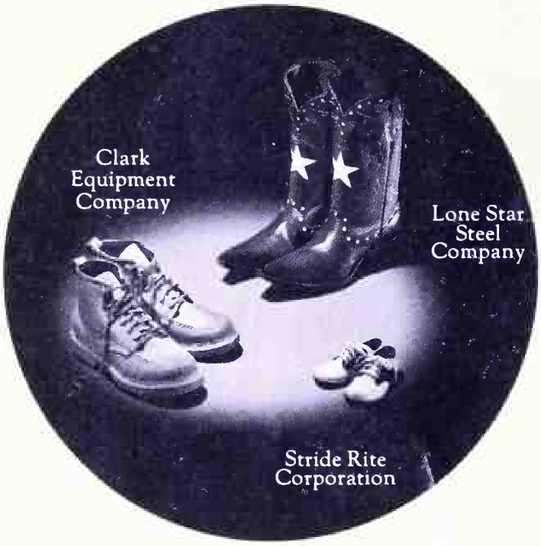

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TIME HONORED TRADITION IN MONEY MANAGEMENT

" Pruden says, "not in the way sto-
are structured."
ılk radio—most notably the version
ticed by Limbaugh—takes this
ting to another level. It doesn't try
alance at all, and Rush's 20 million
dy listeners don't seem to ask for it.
ecent Harris Poll found conserva-
talk-show hosts outnumber liberal
s 2 to 1. A 1993 study by the Times
or Center for the People & the
s found that regular talk-show lis-
rs are twice as likely to be conser-
ve as liberal. Fact and opinion be-
a blur on most of these shows.
listeners with a pent-up desire to
the debate flock to their phones.
ne medium is exploding both in
s of numbers and influence. Accord-
o the *M Street Journal*, a radio in-
ry publication, the number of sta-
with a dominant talk format has
n to 1,028 from 308 since 1989. An-
s generally credit Limbaugh and
right-wing drumbeat emanating
these stations with turning the
ervative tide in the 1994 elections.
TCHEROO. And if there's any doubt
it the opportunistic nature of this
to conservative media, witness the
sformation of KSFO, a station owned
apital Cities/ABC Inc. in San Fran-
. Until January, it aired liberal talk
d at Generation X. But then came
election, and management switched
ot Talk, a scorchingly conservative
at complete with hosts calling for
quarantine of AIDS patients and
ities on illegal immigrants. It is not-
that KSFO Operations Director Jack
nson, a liberal, years ago launched
Francisco's first gay talk show.
onservative and right-wing popu-
voices are everywhere. Cable sta-
CNBC, run by former Bush media
en Roger Ailes, now airs evening
shows featuring right-winger Cal
mas and former Bush campaign
ager Mary Matalin. (It also runs
al talk shows.) In book publishing,
can't throw a brick into a gather-
of conservatives without hitting
eone who's got a book contract,"
Frum.
ownie says he welcomes the pro-
ation of new voices. "The more me-
he better," he says. Indeed, he feels
Post and other traditional media
flourish by remaining the most im-
ial and authoritative of the alter-
ves. "We need to be credible—not
ed—thorough, and investigative," he
. "We need to be everything those
media aren't." Clearly, however,
umers are also demanding every-
g the new media are. And in a coun-
devoted to a free press, we'll just
to live with the consequences.

By Michael Oneal in New York

RESEARCH

CALL IT THE SUPERNET

vBNS links supercomputers to tackle monster problems

The coolest new place in cyberspace is so cool, it's not even on the Internet. It doesn't have chat rooms or car ads or sexy graphics files or a user-friendly interface or nodes in every major and minor city. What it does have is blazing speed—connections at up to 155 megabits per second, or more than 10,000 times the speed of that 14.4-kilobit modem you just bought for your home computer.

It's called vBNS, for very-high-speed Backbone Network Service, and it's run by MCI Communications Corp. for the National Science Foundation (NSF).

vBNS blasts data at speeds that make the Net look like the Erie Canal. But only five of the top U.S. computing centers can communicate at that rate

vBNS, which made its public debut on Apr. 24, is a peek into the future of scientific computing. It's not connected to the Internet because browsers aren't welcome. vBNS is strictly for "Grand Challenge" problems that only networks of supercomputers can hope to crack—problems such as predicting global climate change and designing better drugs. vBNS has been quietly getting up to speed for several weeks. It connects five of the most important concentrations of supercomputing power in the U.S. (map, page 94), with lower-speed links for other "meritorious" users via sites in Chicago, New York, San Francisco, and Washington.

MCI Chairman Bert C. Roberts Jr. says winning the contract to operate vBNS helps burnish the high-tech credentials of MCI, which will pump an unspecified amount of its own money into the network in addition to the $50 million over five years it's getting from the NSF. "Those of us who do science have been bored to death by the Internet and its speeds for about two years," says Richard T. Liebhaber, who is scheduled to retire at the end of May from his job as MCI's chief strategy and technology officer. "Our mind-set now is on full-motion visualization of things," Liebhaber says. "For that, you need a gazillion MIPS of processing power."

Because of a production error, most readers did not receive the full text of this story in last week's edition.

Indeed, by networking together two or more top-flight supercomputers, vBNS makes possible some of the largest computations ever attempted. Sure, any single supercomputer could do a big computation alone, but it might be out of date by the time it was completed—as in a forecast today of yesterday's weather. vBNS also promotes collaboration by transmitting ultrahigh-fidelity video images so researchers in different cities can watch a virtual experiment as it unfolds inside a computer. All in all, it has researchers ecstatic: "In problem after scientific problem, it turns out that you're groping in the dark until you get the insights and pictures that you can only get from contemporary computers," says Malvin H. Kalos, director of the Cornell Theory Center, a collection of high-powered iron at Cornell University.

DOUBLE TEAM. One of the first calculations attempted using vBNS illustrated its potential. In mid-April, researchers in San Diego and Pittsburgh yoked together two similar Cray Research Inc. supercomputers—one at each site—to calculate global weather patterns. One computer used software from Princeton University to calculate temperatures and current speeds in the ocean, while the other tended to the atmosphere using software from the University of California at Los Angeles. Every 10 seconds the Crays swapped results and used the data for new calculations. Massaging the two programs so two remote computers could use them together took years of "hand-tuning," says San Diego staff scientist Bilal Chinoy. Eventually, he says, the remote computers will be of different types, so each can focus on the type of calculation it's best at.

The weather at your local airport, rather than over some ocean, is among the VBNS projects planned by the National Center for Atmospheric Research in Boulder, Colo. NCAR's Aviation Weather Development Laboratory hopes to use VBNS to aid aviation by improving the ability to predict killers such as wind shear and ice storms. That project, however, is endangered by expected cutbacks in funding by the Federal Aviation Administration, says William P. Mahoney, the aviation lab's manager.

In Urbana-Champaign, Ill., Erik Jakobsson is studying what he calls "a violent electrical microstorm" at the boundary between a human cell membrane and the objects around it. It can take 1,000 hours of calculations on a Cray supercomputer to create just one simulation of what is happening at the molecular level, according to Jakobsson, a senior research scientist at the National Center for Supercomputing Applications. Such research could help identify environmental hazards by figuring out which chemicals are most likely to be absorbed by human tissue. "Right now we're cooperating with other labs in the mode of sending E-mail," Jakobsson says. "What we're looking for now is the next step: a virtual laboratory where people could interact as though they were in the same place."

By the turn of the century, when the NSF contract ends, speeds on the VBNS should rise sixteenfold, to 2.4 gigabits per second. MCI scientists are hoping to achieve those rates without resorting to untested, experimental technology. In today's network, all the equipment is off-the-shelf. Data fly out of supercomputers and are assembled into Internet-style packets by routers made either by Cisco Systems Inc. or a startup called NetStar Inc. Almost instantly, the packets are further packaged into asynchronous-transfer-mode (ATM) cells by switches from Cisco's Lightstream unit. Then they hit MCI's network, passing through cities such as Denver, Houston, and Washingt
The cells whiz through optical-fiber tra
mission gear from Northern Telecom I
and ATM switches from General Da
Comm Industries Inc. Traveling at tv
thirds the speed of light, a bit can cr
the country in 1/40th of a second.

For the NSF, the state-of-the-art VB
is a smooth segue from NSF Net, which
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NSF is reducing dir
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their networking nee
through private com
nies. While some fu
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Net officially expires
the end of April.

TEST BEDS. VBNS m
be three times as f
as the NSF Net ba
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this year. The d
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test beds we
mainly for expe
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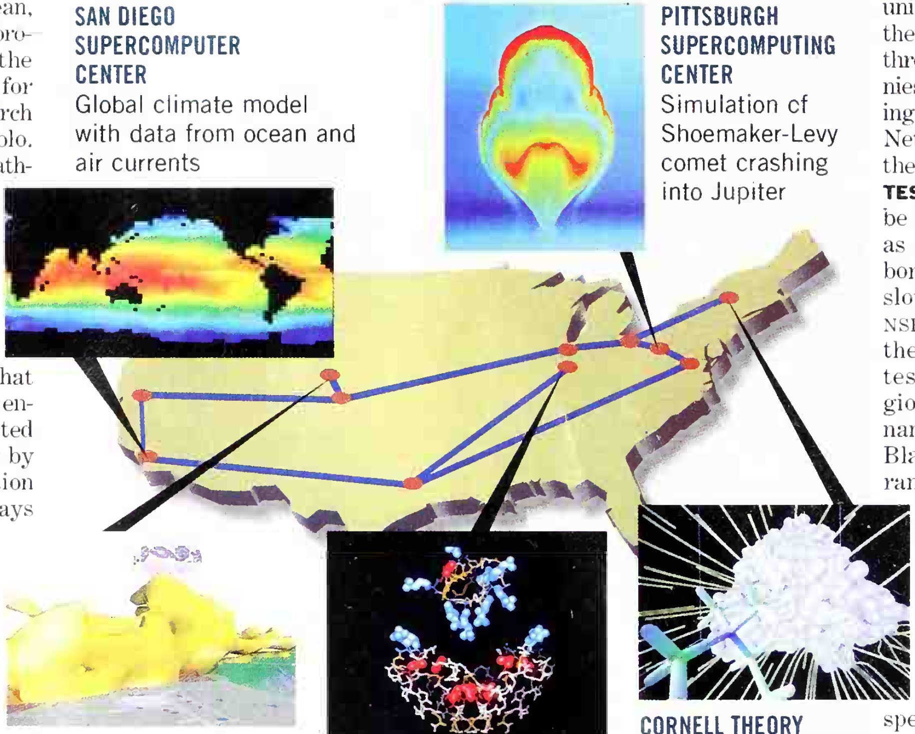
speed network equ
ment and softwa
while VBNS is aim
more at finding us
for relatively well-te
ed technology.

If this all soun
rather spacey, so
the World Wide W
of interconnected co
puters a couple
years ago, notes Ralph Z. Roskies, co-
rector of the Pittsburgh Supercomp
ing Center. Says Roskies: "What we
trying to do here is a similar thing but
the high end, coupling very fast comp
ers together." In a few years, 3-D sin
lations of wind shears and cell me
branes may be as routine as E-mail fr
the boss.

By Peter Coy in New Yo

Way Cool Science on the Next Internet

vBNS connects five U.S. supercomputing centers at a blazing 155 million bits of data per second. The new network is funded by the National Science Foundation and operated by MCI Communications



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Global climate model with data from ocean and air currents

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3-D display of heavy rain (yellow blob) on approach to airport

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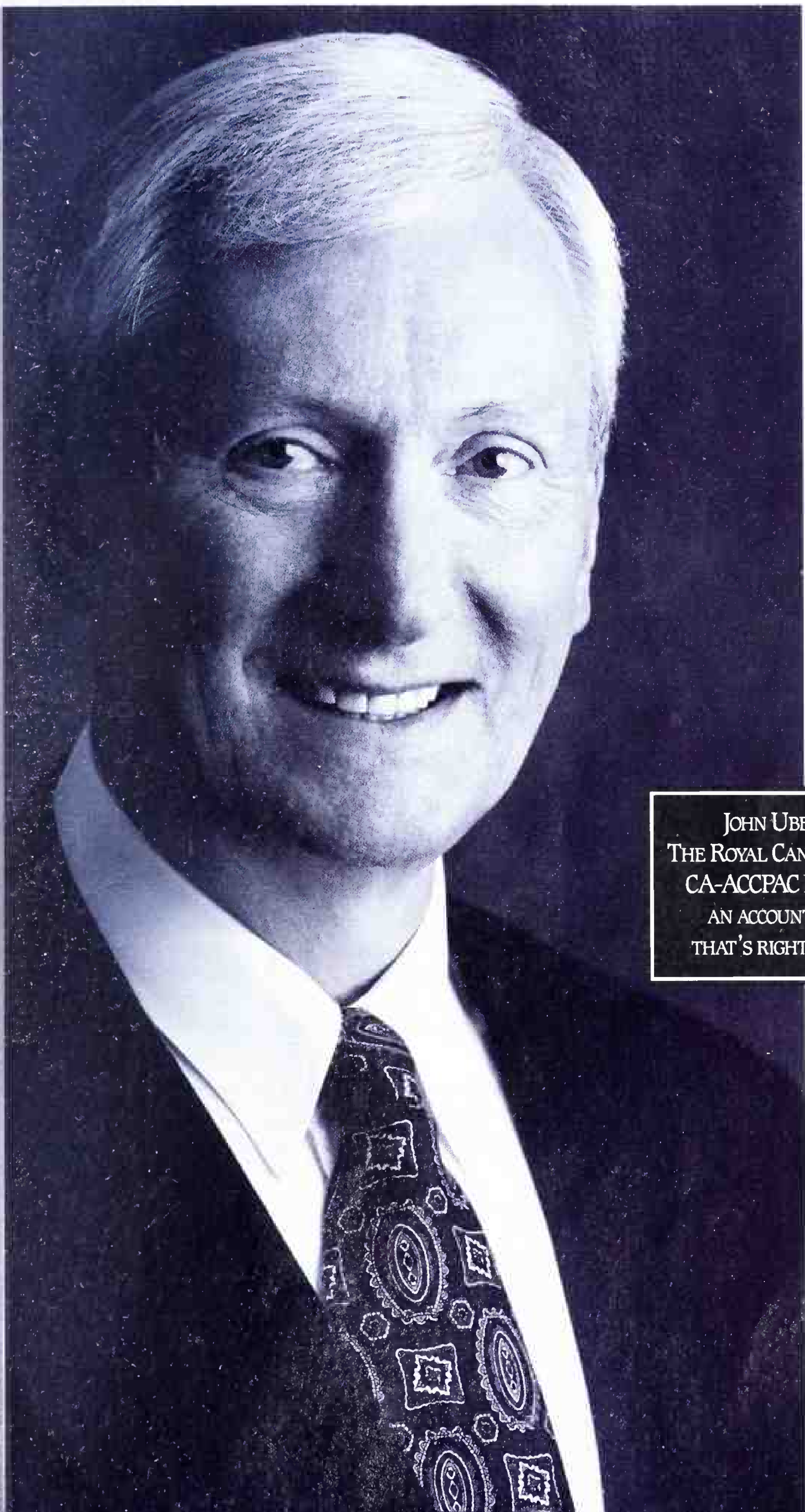

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Developments to Watch

EDITED BY PETER COY

A NEW SPIN ON DISPLAY SCREENS

THOSE TWIRLING GLITTER balls hanging over disco dance floors may soon have a high-tech counterpart. Advanced Laser Technologies Inc. in Moorpark, Calif., is developing a display for computers and televisions that uses laser beams bouncing off the 36 sides of a small, spinning polygon. A prototype of the Thinline display is monochrome and 4½ inches thick with VGA-quality resolution, but inventor and ALT shareholder Donald C. Conemac says it's possible to make a full-color version that's 1 inch thick, with lenses that narrow the laser spot to give resolution superior to anything achievable with liquid-crystal displays or cathode ray tubes. ALT hopes to use the core technology in other products, including a device that could compress video images 300 to 1.

Those are huge claims, but Advanced Laser's patented approach seems promising. The polygon's facets are tilted so that each one directs light to a different stripe on the screen. As the polygon spins, each part of the screen is lit up. A controller tells the laser when to fire, while electrical pulses delivered to a pair of crystals deflect the laser beams sideways and up and down. An executive at one large potential customer, who declined to be identified, says Advanced Laser has solved problems that stumped other companies that experimented with laser displays: "There's a lot that's not in the patent, I guarantee you," he says.

PLANTS THAT CLEAN A MESS OF MESSES

PLANTS THAT USUALLY DON'T GET MUCH RESPECT—LIKE cattails and ragweed—are coming into their own as low-cost pollution vacuums. Using vegetation to soak up toxic wastes was proposed in 1980 by Rufus Chaney, a U. S. Agriculture Dept. agronomist. But the idea caught on only in the past few years, says Douglas D. Randall, a University of Missouri biochemist and co-organizer of a conference in April that attracted 35 researchers from around the world.

Chevron Corp., for instance, is using cattails to soak up selenium discharged from its Point Richmond (Calif.) oil refinery (photo). Some of the selenium is expelled into the air in nontoxic quantities. Cattails containing selenium can be reaped and spread over soil that's deficient in the metal. That should cost a fraction of the hundreds of millions of dollars that would be required to dredge and bury or burn the sediments, according to University of California at Berkeley plant biologist Norman Terry.

In Ukraine, Ilya Raskin, a Rutgers University biochemist, is testing the Indian mustard plant to soak up radioactive wastes from soil near the Chernobyl nuclear power plant. And in Athens, Ga., Environmental Protection Agency researchers are studying how plants such as parrotfeather and stonewort can soak up and decompose TNT.

WILL SERENITY COME TO THE FACTORY FLOOR?

NEXT TIME YOU'RE FEELI deafened and defeated by noisy vacuum cleaner or frigerator, ponder the gor of Korean temple bells. Th huge, barrel-shaped wond vibrate much like the cyl drical metal casings on no machinery such as refrige tion and heat pump compr sors. By understanding h the bells produce their de sounds, Purdue University gineering professor Wern Soedel thinks he can redu mechanical racket.

To fathom the bells, S del created a simplified ma ematical model, described the June issue of the *Jo nal of Sound & Vibratio* His formulas suggest that bells' rhythmic resonan comes from the uneven dis bution of ornamental carvi on the bells' exterior. Jus slight deviation from ax symmetry creates the be ing effect that pleases the in a mountain retreat but cause hearing disorders the factory floor. By aidin more even distribution mass in machinery casin Soedel's formulas could duce the noise—and may resolve a modern koan: Wh causes the sound of one co pressor clanging....

THESE HEALTH NUTS REALLY DO LAST LONGER

UNIVERSITY OF FLORIDA researchers have bred a peanut that has a shelf life measured in years rather than months and may even lower cholesterol. That's good news for peanut vendors: The nut's reputation as a high-fat snack prompted Delta Air Lines Inc. in 1993 to add pretzels as a healthier alternative snack on its flights.

The new breed, SunOleic 95R, offers not less fat, but a better mix of kinds of fat. Some 80% of its fatty acids are monounsaturated, compared with 50% in a normal peanut. It's lower in polyunsaturated fats and doesn't go stale from exposure to oxygen, which accounts for its longer shelf life, according to its developers, Florida professors Daniel W. Gorbet and David A. Knauft.

Rachel Shi man, a biochem at the Univers of Florida, cond ted a study la year on 18 postmen pausal women. S found that those w were on a low- diet and ate Su Oleic 95R peanu had a 10% decline low-density lipoproteins, "bad" cholesterol. T women's LDL also resisted idation, which leads to art ial plaque.

[illegible] HANSEN/UC BERKELEY ILLUSTRATION BY MACIEK ALBRECHT

YOU KNOW ALL ABOUT THE LAST DAY IN JOHN KENNEDY'S LIFE. BUT WHAT ABOUT THE 16,979 DAYS BEFORE IT?

May 29th, 1917. Rose Kennedy of Brookline, Massachusetts gives birth to her second son, John Fitzgerald Kennedy. July 23, 1935, JFK's acceptance letter from Harvard arrives in the mail. August 2, 1943, PT-109, with JFK on board as commander, is sunk by a Japanese destroyer. May 6, 1957, "Profiles in Courage", written by JFK, is awarded the Pulitzer Prize for biography. January 20, 1961, he becomes the youngest elected President of the United States.

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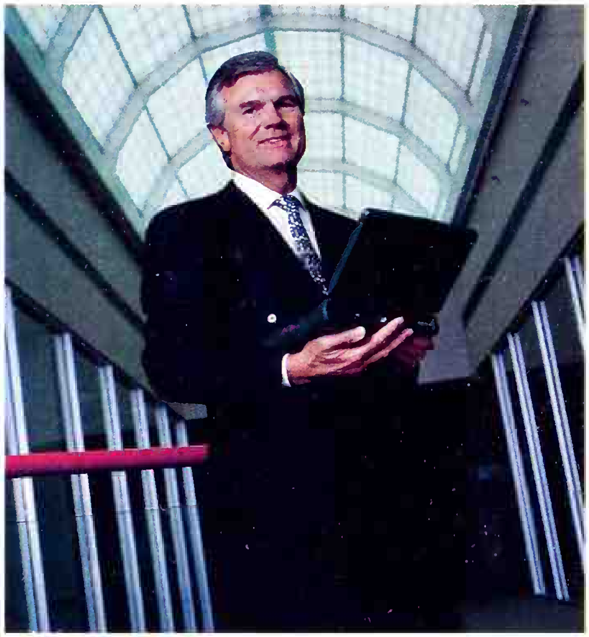
COMPUTERS

WHERE COMPAQ'S KINGDOM IS WEAK

In laptops and home PCs, the monarch doesn't rule

When Compaq CEO Eckhard Pfeiffer took over 3½ years ago, he had a bold but simple plan to put the troubled personal computer maker back on top: slash prices, expand distribution, and snap up market share. It worked better than anyone imagined. Compaq blew by rivals and, with $10.9 billion in revenues, is king of PC makers.

But all is not well around Compaq Computer Corp.'s Houston castle. The company is stronger than ever in its core business of selling desktop PCs and network servers to businesses, but it's underperforming in two critical markets—laptops and home PCs. Because it failed to get new models out, Compaq last year lost the top spot in laptops to Toshiba Corp. In the sizzling consumer market, Packard Bell Electronics Inc. overwhelmed Compaq—selling 787,000 home PCs in the fourth quarter vs. Compaq's 549,000, says CS First Boston analyst J. William Gurley. Unless Compaq performs better in these growth businesses, it may not achieve Pfeiffer's next goal: to reach $30 billion in sales by 2000 and eventually grab twice the market share of its nearest competitor.



NO PANIC: *Pfeiffer is betting on the power of Compaq's brand name*

DIANE MEREDITH; GRAPHIC BY ROB DOYLE/BW

BIG QUESTIONS. It's far from panic time. Compaq's first-quarter sales jumped 30%, to $2.96 billion, while the rest of the industry grew around 20%. But earnings for the quarter were flat, and Compaq stock trades at about 39, 13% off its 52-week high. The big concern is the short-term impact on earnings from a massive transition to new models across the company's product lines. There are also questions about how quickly Compaq can turn around the home-PC and laptop businesses.

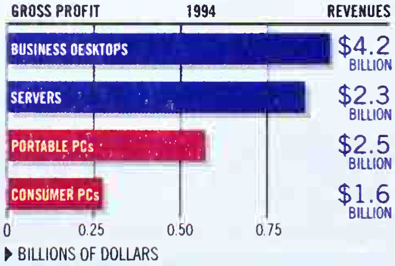
So, Pfeiffer is hatching some new plans to get Compaq firing on all cylinders. There's a companywide reengineering effort that includes a new information system to speed up the process of turning signals from the market into new models and getting those models into production as soon as possible. In desktops and servers, it's business
usual: a barrage of new products lar
with advanced features. But in lapt
and consumer lines, Pfeiffer is takin
new tack. He's betting that in both n
kets, brand name, competitive pric
and consistent availability—rather t
whizzy technology requiring costly
hard-to-come-by new components—
keep market share on the rise. "
want to adapt fully to the consu
market," says Pfeiffer, who started
career selling calculators for Texas
struments Inc.

At the heart of the new plan is a
ly radical departure for Compaq. Afte
decade of telling customers its engine
ing and manufacturing prowess are w
distinguish it from ordinary PC clo
makers, Compaq has announced pl
to buy laptop and consumer PCs f
Taiwanese subcontractors. Under ag
ments announced in February and A
Inventec Group and Mitac Internati
Corp. will provide multimedia lapt
and home PCs, respectively. And th
only a start. "This isn't a one-shot
but rather a continuous effort," says
tac Chairman Matthew Miau. Adds P
fer: "We're opening up and are very
ceptive to new proposals."

By tapping these outside suppli
Compaq can quickly and economic
fill holes in its product line and m
sure it has enough inventory on han
keep store shelves filled—a chr
problem for the company in 1994. Th
are risks to the plan—big ones. C
sumers may not want to buy a Mi
even with a Compaq nameplate. A
they may be unwilling to give up
latest features just to get the Com
name. After all, one reason Packard
cleaned up last Christmas was tha
was selling Pentium-based machi
against Compaq's 486-based lineup.

Even now, Compaq is a step behi
The company says half of its shipme
will be Pentium models by July, but

Compaq's Two Laggards...



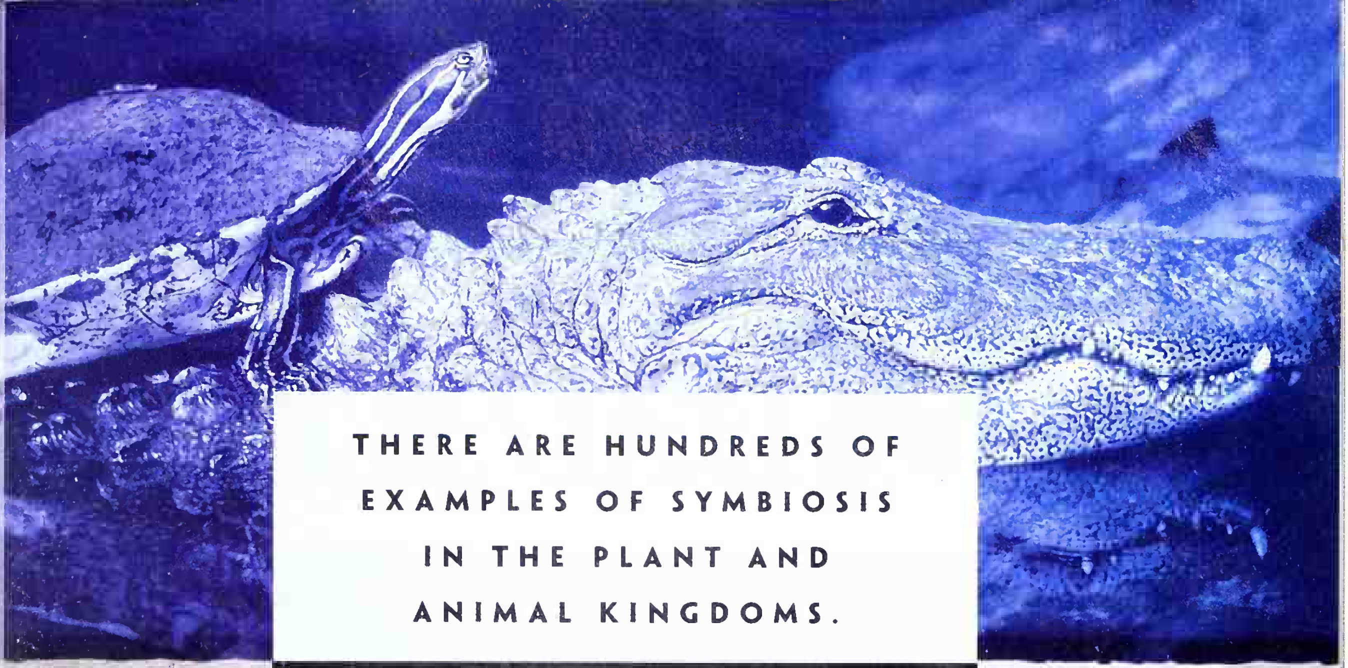
DATA: CS FIRST BOSTON

...And How to Improve Them

INCREASED OUTSOURCING To c
costs, Compaq will buy multimedia
laptops and low-end home PCs fro
Taiwanese subcontractors

FEWER GEE-WHIZ PRODUCTS In
stead of focusing on the latest bell
and whistles, Compaq will push PC
that don't require exotic components that are often in short supply

DATA: BUSINESS WEEK, COMPANY REPORTS



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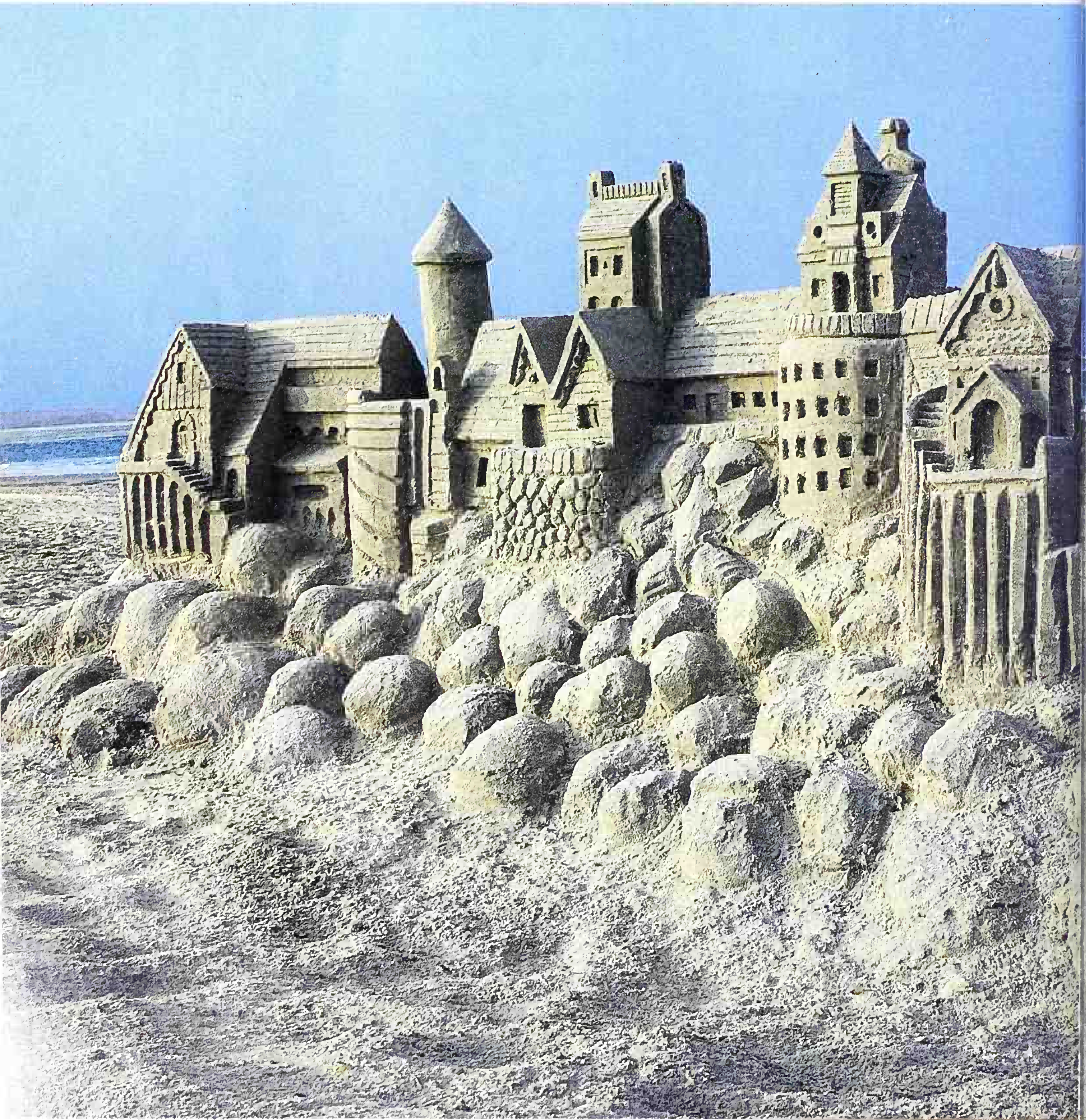

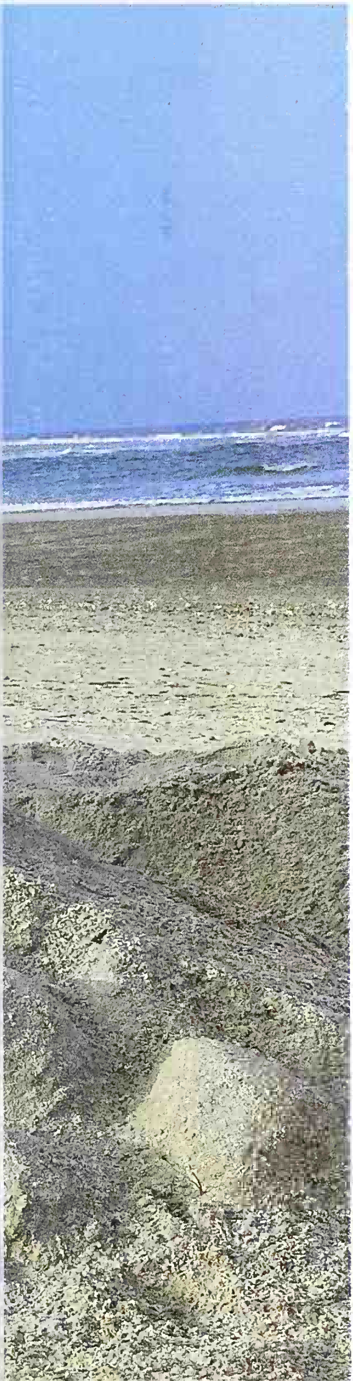

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vals are well ahead in the move to the faster chip. In laptops, Compaq execs concede that they won't come up with the models they need to retake the market lead until 1996. "I don't know if it's arrogance or someone is asleep at the switch," says Rodney Keller, a former Compaq marketing exec and now a Digital Equipment Corp. vice-president. "It's not that you always have to have the sharpest feature set, but you can only ride brand name for so long."

Compaq's response? "Not everything hinges on whiz-bang technology. You also have to have the product available," says laptop marketing manager Sharon Francia. "We don't want to be waiting around like last year," when shortages of screens and custom chips helped delay the LTE Elite laptop by six months.

As Compaq tries to get the most out of its highly regarded brand name, the company is also out to discredit Packard-Bell's. On Apr. 10, it brought a civil suit charging Packard Bell with reusing parts from returned PCs in new products. Not only did Packard Bell outline the practice in the prospectus for an aborted 1992 public offering, it says it hasn't gotten any complaints. "If there was any customer backlash, we would have heard about it—and we haven't heard a thing," says Alan C. Bush, president of Tandy Corp.'s Computer City superstores, a major Compaq and Packard Bell outlet. Says Packard Bell CEO Beny Alagem: "Compaq's trying to create doubts among our customers."

NO WORRIES? Compaq's biggest threat may not be from Packard Bell but from Intel, which has been instrumental in the home-PC leader's success. By designing prototype motherboards that incorporate its latest chips for PC makers, Intel allowed Packard Bell—as well as Dell and Gateway among others—to bring out new models quickly and cheaply. That's how these companies jumped into the Pentium business ahead of Compaq, which designs its own motherboards. Now, say industry sources, Intel has motherboard designs for multimedia PCs and network servers, too.

Pfeiffer says he's not worried. He compares the doubts now to those that clouded the company three years ago. Back then, few industry-watchers figured Compaq could really take on companies such as Dell Computer Corp. with new low-price products. "I kept meeting with the heads of major resellers, telling them, 'You have to be patient, we'll deliver,'" says Pfeiffer. Next stop: $30 billion.

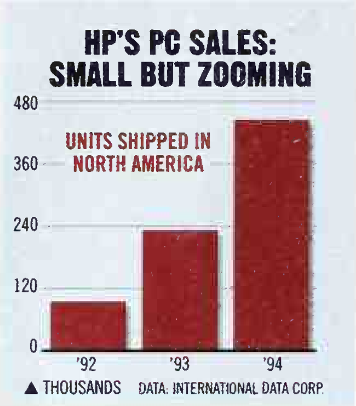
By Peter Burrows in Houston, with bureau reports

HEWLETT-PACKARD HEADS FOR THE HOME

As if Compaq Computer Corp. didn't have enough headaches, it now can count $25 billion Hewlett-Packard Co. among its rivals in the home PC market. The computer and scientific-instruments giant, which has already made a stunning comeback in office PCs, announced plans in mid-April to go after consumers, too.

HP's first consumer PCs, with prices ranging from $1,699 to $2,299, not only undercut Compaq's Presario offerings but very nearly match those made by consumer-PC leader Packard Bell Electronics Inc. The machines are available only in Circuit City stores now, but come summer, HP plans to roll out a whole new series of home PCs through virtually every major consumer-electronics chain. "I really want to get into the top three in retail as fast as we can," says Harry W. McKinney, general manager of the company's Home Products Div.

HP'S PC SALES: SMALL BUT ZOOMING



DATA: INTERNATIONAL DATA CORP.

Already, HP has become a PC force to be reckoned with. Riding the popularity of its laser and ink-jet printer lines, it sailed into computer stores last year. Thanks to four price cuts since August—the last two leading the industry for the first time—HP is growing faster than any other personal computer maker, nearly doubling worldwide sales last year, to 1.2 million units. In North America alone, HP has seen unit sales jump to nearly five times 1992 levels (chart). Selling chiefly to corporate customers, it has become the ninth-largest supplier in just two years. Says International Data Corp. analyst Bruce Stephen: "They're on a roll."

The push into the home-PC market should keep the momentum going. To appeal to consumers who are expected to buy 10 million PCs this year, HP will field machines that sport sleek profiles, bright colors, and fast set-up times—HP's motto is "Fun in Fifteen Minutes." But more than anything else, HP will be counting on its name "HP has a strong reputation for quality, reliability, and technology leadership," says Kenneth W. Beaver, Circuit City Stores Inc.'s national merchandising manager.

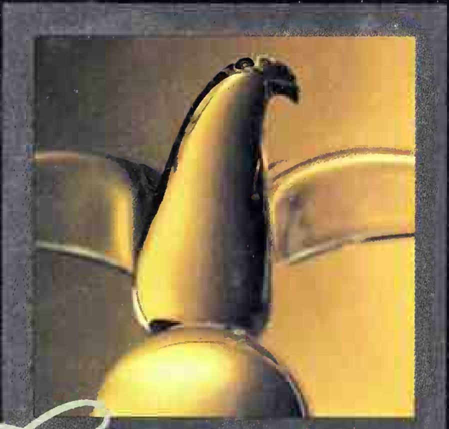
ROUGH MARKET. Brand name is one thing, but consumer marketing is quite another. Heavyweights such as IBM have spent billions of dollars to win over the consumer-electronics crowd. And even though HP has sold calculators to consumers for decades it has never been known for mounting stellar consumer marketing campaigns.

Still, HP has bee quietly working to prepare for the rough-and-tumble home-PC market. For one thing, it n longer has any religious feelings about in-house manufacturing. The company uses SCI Systems Inc. in Huntsville, Ala., to build basic "subsystems" to which H simply adds disk drives and other components. Moreover, HP is nearly finished with creating a "build-to-order" program that keeps inventory costs down and gives retailers the machines that they want, even on short notice.

HP has also managed the tricky process of pleasing dealers. Its direct-sales force lets resellers fulfill large corporate orders. And, so far, HP has avoided the typical retailing *faux pas*—leaving dealers with an excess of slow-selling products or, worse yet, a short supply of hot products. That should give retailers reason to provide HP prominent shel space. Indeed, Computer City President Alan C. Bush thinks a year from now, HP will join Compaq and Packard Bell as the top three home-PC sellers at retail. "The only question," Bush pointedly adds, "is what order they'll be in."

By Robert Hof in Palo Alto, Cali with Peter Burrows in Dallas

Congratulations to the Winners of
The Tenth Annual Business Week Awards
for Excellence in Corporate Advertising



The readers of Business Week have recognized twelve distinguished advertisers for creating the best remembered corporate campaigns of 1994.

The winners were determined based on 1994 advertising readership scores compiled for Business Week by Roper Starch Worldwide, Inc. Roper Starch is an independent research firm and the acknowledged readership measurement standard for the print industry.

Representative ads of the winning campaigns are shown on the following pages.

As Business Week celebrates the tenth anniversary of the awards program, it proudly recognizes these companies for excellence in corporate advertising.

Amoco Chemicals

James E. Fligg *Executive Vice President, Chemicals Sector*
Bender, Browning, Dolby & Sanderson *Chicago, IL*

THANKS TO AMOCO, YOUR KID'S FIRST CAR CAN BE A LAMBORGHINI.

Andersen Consulting

George T. Shaheen *Managing Partner*
Young & Rubicam *New York, NY*

Why settle for one good year?

Six glasses, a toast or two and even the most excellent year is history. Whether it came in a bottle or on a balance sheet.

Unless, that is, you have put into place an approach that can keep delivering vintage year after vintage year. An approach that yields rooted long-term capabilities, not just fleeting short-term results.

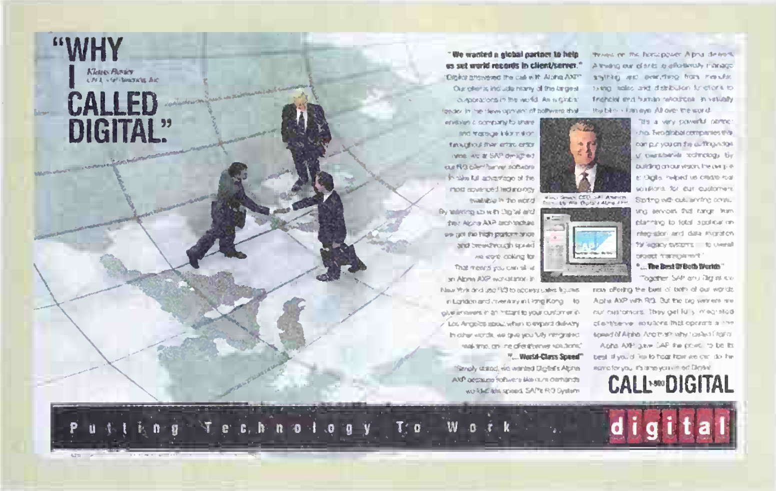
At Andersen Consulting, our goal is to give your enterprise the capacity to keep adapting and improving indefinitely. To accomplish this, we can help you create an optimal blending of all your organization's vital resources: strategy, technology, business processes and people.

Because when all of these components work together, you can be sipping success in the present while your future is ripening on the vine.

ANDERSEN CONSULTING

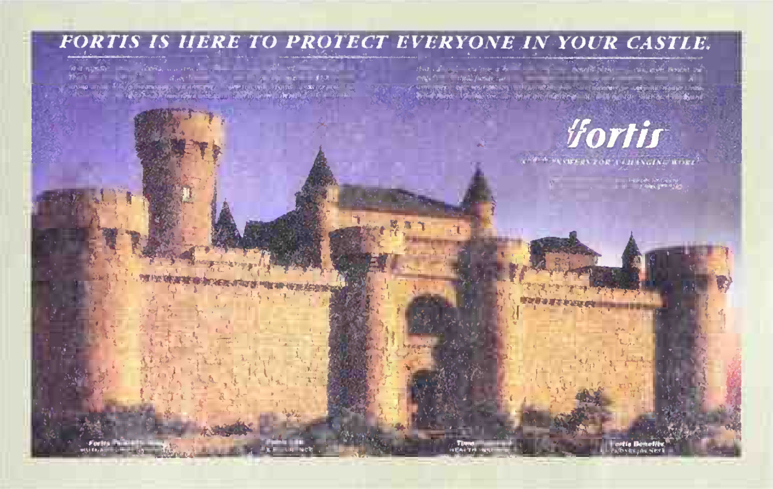
Digital Equipment Corporation

Robert B. Palmer *President & CEO*
Ciociola & Company *New York, NY*


"WHY I CALLED DIGITAL."
"We wanted a global partner to help us set world records in client/server."
"...World-Class Speed"
"...The Best Of Both Worlds"
CALL 1-800 DIGITAL
Putting Technology To Work
digital

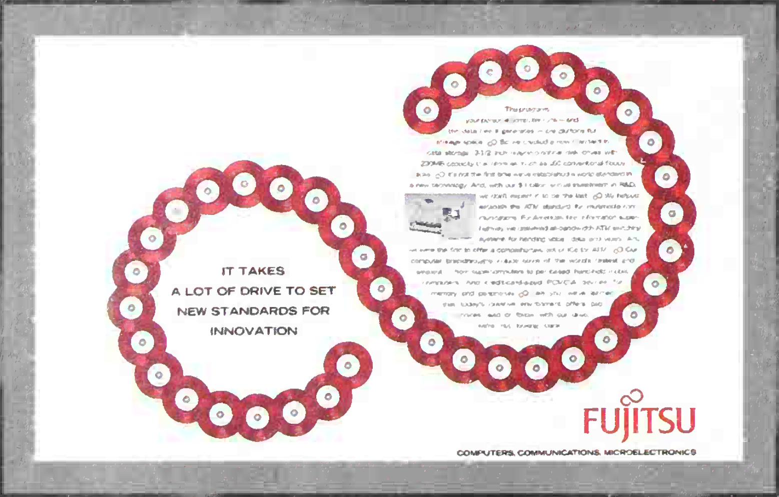
Fortis, Inc.

Allen Freedman *Chairman & CEO*
Ciociola & Company *New York, NY*


FORTIS IS HERE TO PROTECT EVERYONE IN YOUR CASTLE.
fortis

Fujitsu Ltd.

Tadashi Sekizawa *President*
Asian Advertisers, Inc./Publicis, Inc. *Tokyo, Japan/New York, NY*

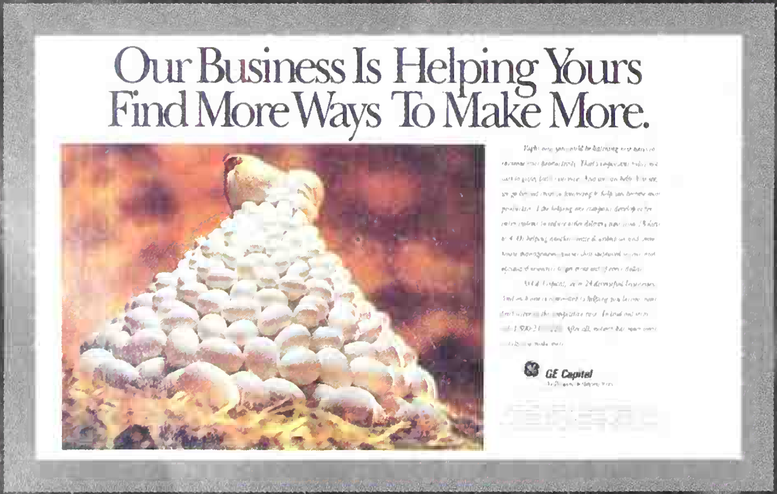


IT TAKES
A LOT OF DRIVE TO SET
NEW STANDARDS FOR
INNOVATION

FUJITSU
COMPUTERS. COMMUNICATIONS. MICROELECTRONICS

GE Capital

Gary C. Wendt *Chairman & CEO*
McCann-Erickson Worldwide *New York, NY*

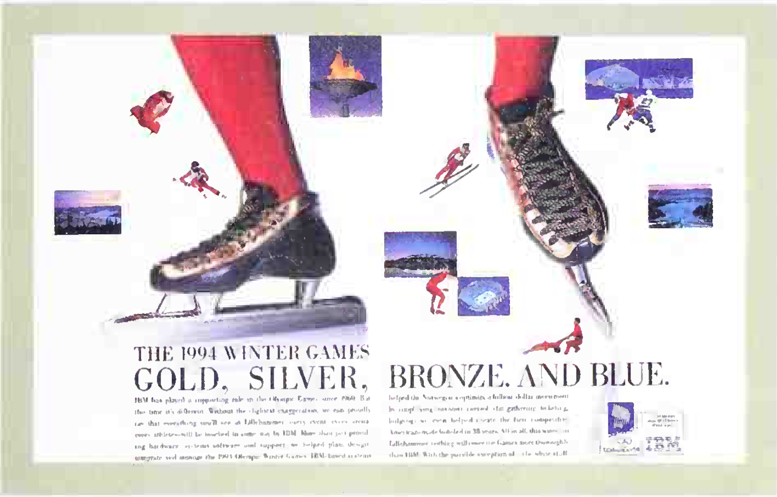


Our Business Is Helping Yours
Find More Ways To Make More.

GE Capital

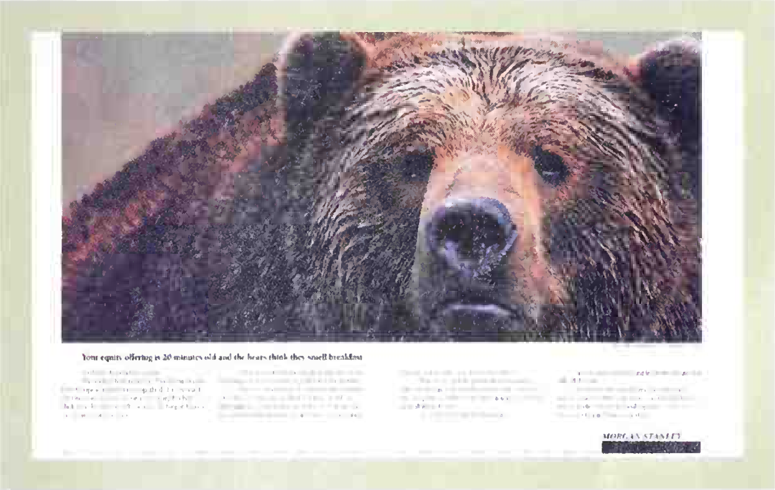
IBM Corporation

Louis V. Gerstner Jr. *Chairman & CEO*
Wells Rich Greene BDDP *New York, NY*


THE 1994 WINTER GAMES
GOLD, SILVER, BRONZE AND BLUE.
IBM

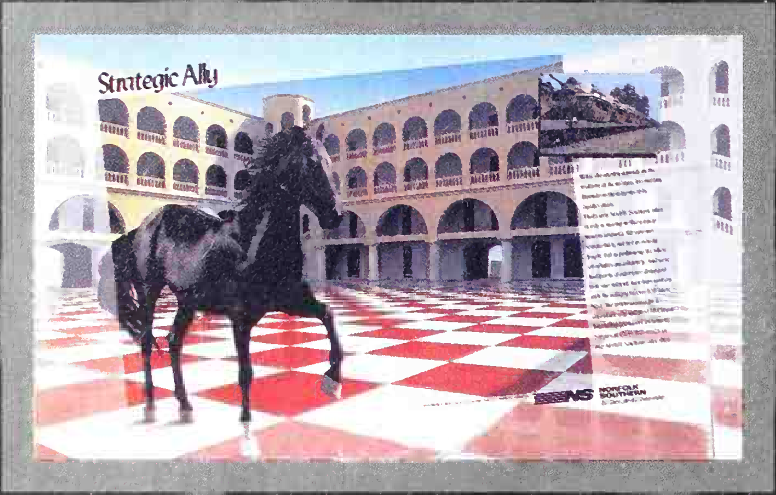
Morgan Stanley Group Inc.

Richard B. Fisher *Chairman & CEO*
Brouillard Communications *New York, NY*


Your equity offering is 20 minutes old and the bears think they smell breakfast
MORGAN STANLEY

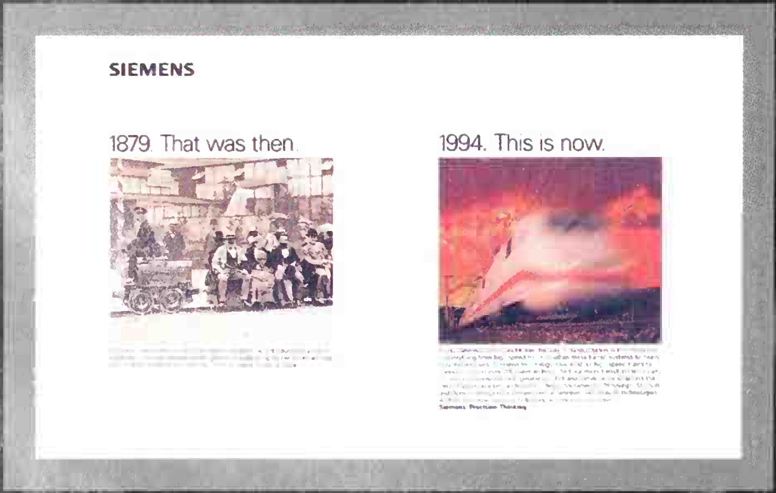
Norfolk Southern Corporation

David R. Goode *Chairman, President & CEO*
J. Walter Thompson *Atlanta, GA*


Strategic Ally
NS NORFOLK SOUTHERN

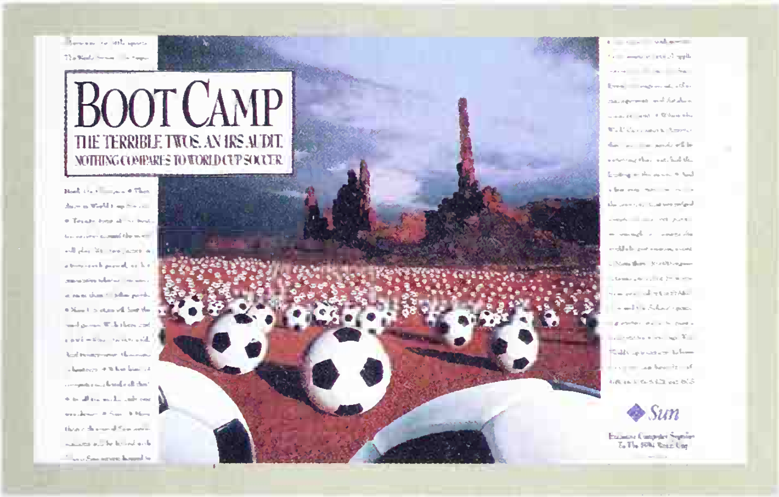
Siemens Corporation

Albert Hoser *President & CEO*


SIEMENS
1879. That was then.
1994. This is now.
Siemens. Precision Thinking.

Sun Microsystems, Inc.

Scott McNealy *President, Chairman & CEO*
Anderson & Lembke *San Francisco, CA*



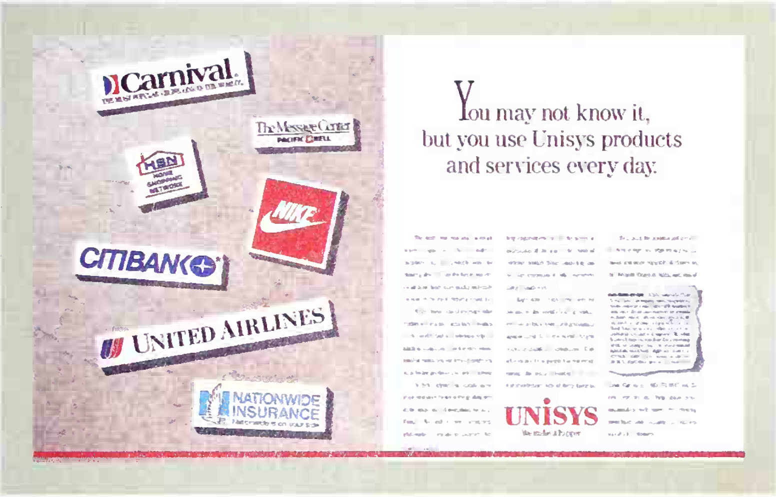
BOOT CAMP

THE TERRIBLE TWOS. AN IRS AUDIT. NOTHING COMPARES TO WORLD CUP SOCCER.

Sun

Unisys Corporation

James A. Unruh *Chairman & CEO*
Bozell Worldwide *New York, NY*



Carnival
The Message Center
HSN
NIKE
CITIBANK
UNITED AIRLINES
NATIONWIDE INSURANCE

You may not know it, but you use Unisys products and services every day.

UNISYS
We make it happen

Past Winners of the Business Week Awards for Excellence

1993

- Amoco Chemicals
- Citibank
- Digital Equipment
- Fortis
- Fujitsu
- IBM
- Norfolk Southern
- Siemens
- Sprint
- Sun Microsystems
- Tandem
- Unisys

1992

- AKZO NV
- American International Group
- Amoco Chemicals
- Andersen Consulting
- Cigna
- Digital Equipment
- Eastman Kodak
- Fujitsu
- Hitachi
- IBM
- Norfolk Southern
- Siemens
- Timken
- Unisys

1991

- Amoco Chemicals
- Cigna
- Digital Equipment
- Fujitsu
- Hitachi
- Lockheed
- Norfolk Southern
- Samsung
- Siemens
- Timken
- Unisys
- US Postal Service

1990

- Amoco Chemicals
- Boeing
- BP America
- Digital Equipment
- Eastman Kodak
- Hitachi
- Intel
- Novell
- Raytheon
- Siemens
- Timken
- Westinghouse

BusinessWeek

Beyond news. Intelligence.

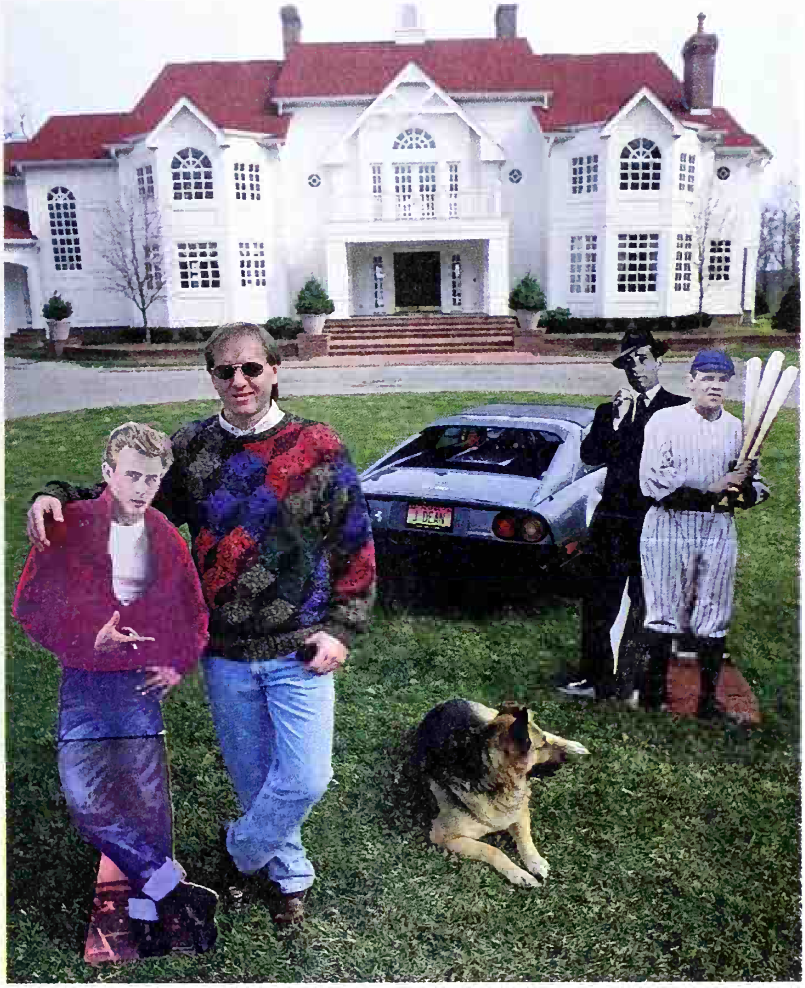
REPRENEURS

UARDIAN OF THE AMOUS AND THE DEAD

nt to put James Dean on a T-shirt? Better see Mark Roesler first

hey are indelible images of America: James Dean brooding. Babe swinging at the . Vince Lombardi ng a gap-toothed Fred Astaire and er Rogers dancing k-to-cheek.

sters and figurines hese and other rican legends are lly displayed in the es of Curtis Mannent Group. But in a warehouse he spoils of a war g waged over the same icons: James n knockoff dolls China, Spanishe clothes bearing Babe's name, mugs pictures of football t Jim Thorpe, Mal- X hats and trivia es. All were made out the consent of deceased celebrities' lies. "There was a when people were ing anything they ted using Elvis, es Dean, and Babe n to sell their prod-' says Curtis CEO k A. Roesler. "Not nore."



HOOSIER AT HOME: *Roesler is a whiz at nabbing licensing violators*

ROBERT HOWER/QUADRANT

ot if Roesler has anything to say it it. The 39-year-old head of Indiaolis-based Curtis has emerged as the *nt terrible* of a growing global niche ket—enforcing exclusive merchanng rights on the use of dead legs in ads and promotions. His 10--old firm earns almost $10 million a by prowling the world for poachers mericana. Roesler also represents n living celebrities as Sandra Dee, her Whitey Ford, and slugger Har- Killebrew—not to mention the Hollywood "Walk of Fame," the city of Beverly Hills, and Texas' famed auto graveyard, the Cadillac Ranch.

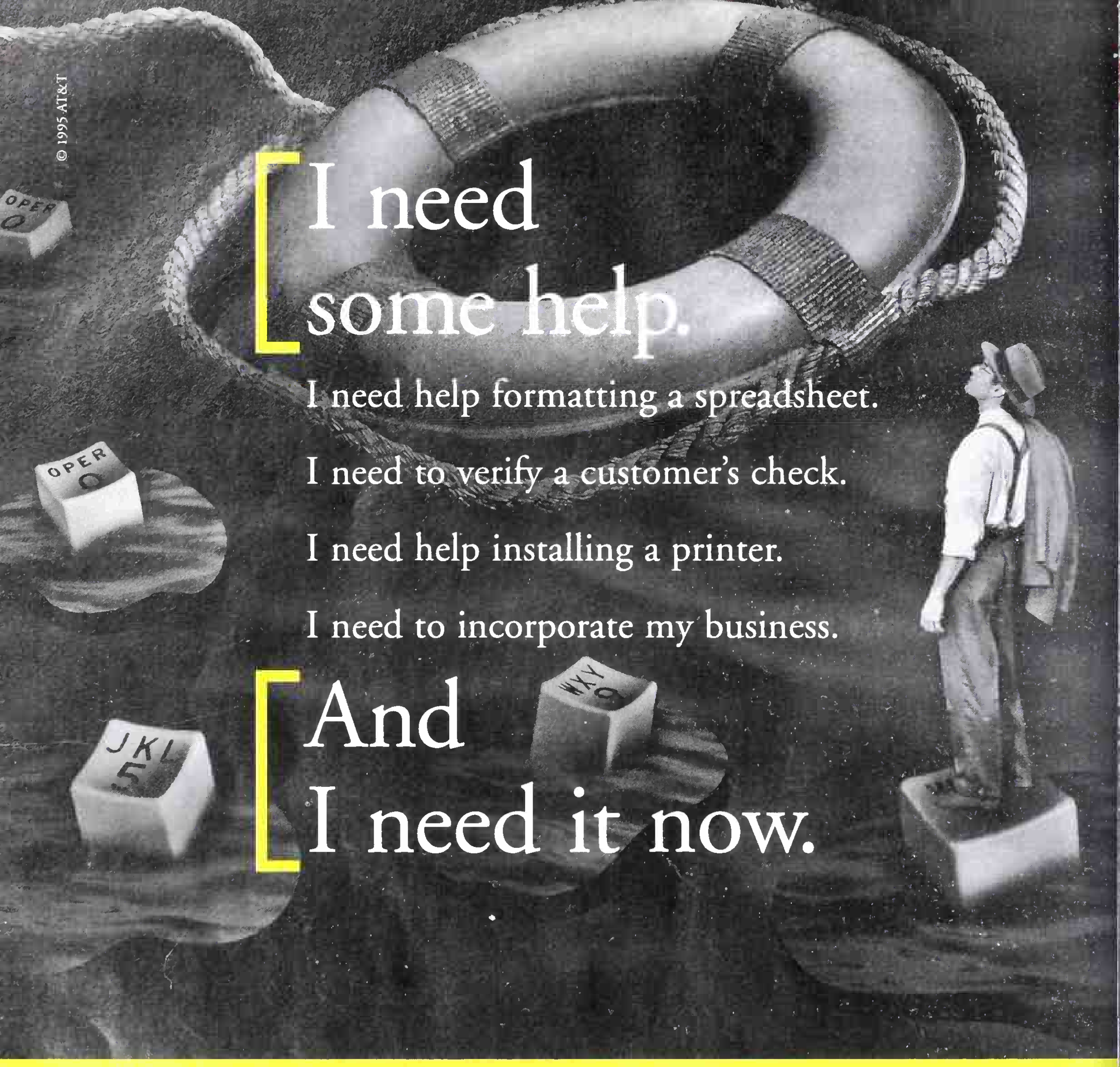
He is the first to tell you it's a rough enterprise that has meant waging ferocious legal battles from Hollywood to Seoul. "We've built our business on being very litigious," he says almost apologetically. And he has succeeded because he fights on legal terrain that he helped establish and knows better than anyone else. In the 1980s, Roesler forced a British company to stop using Astaire's image to market condoms with the slogan "Don't go anywhere without your top hat." In 1992, he duked it out with director Spike Lee before the release of *Malcolm X*. Roesler ultimately won control of the rights to the suddenly ubiquitous "X" on tee shirts and hats for Betty Shabazz, widow of the slain black leader.

VICTORY. But Roesler's business really took off after his 1992 bout with Warner Bros. Inc. Seeing the merchandising potential in its film immortals, Warner filed a $90 million suit against Curtis. The name and likeness of James Dean belonged to it, Warner claimed—not to the actor's family, which had hired Curtis in 1984.

Not only did the U.S. District Court in Los Angeles rule in Curtis' favor but after the firm countersued for malicious prosecution, Warner settled for about $2 million plus legal fees. The victory sent relatives of the famous flocking to Indiana and made Roesler's client list the envy of other trademark and copyright firms (table, page 113). "The word is out," says Humphrey Bogart's son, Stephen H. Bogart. "Mark will get you. He's good. He knows his stuff." Being based in Hoosier country doesn't hurt, Roesler observes: "People don't take you seriously when you're from Indiana, but they trust you."

Indeed, though he's a shark when pursuing licensing violators, up close

© 1995 AT&T


I need some help.
I need help formatting a spreadsheet.
I need to verify a customer's check.
I need help installing a printer.
I need to incorporate my business.
And I need it now.
OPER 0
OPER 0
JKL 5
WXY 9

The number to call starts with

900-555-

When you need help, one thing is certain. It starts with 900-555, the 900 exchange reserved exclusively for business. 900-555 numbers are the fastest way to get in touch with Novell, Lotus, Ricoh, A.M. Best Company and other leading companies for direct access to the business information and technical support you need, whenever and wherever you need it. At prices you can trust. That's 900-555. It's all business and it's only from AT&T. For companies using 900-555, check the list at the right. Or, for a more complete list, call 1 800 655-1366, Ext. 600.

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er comes across as a soft-spoken, spun Midwesterner. "Mark is a sharp businessman, but he's also laid back. He's always willing to a deal," says Julia Ruth Stevens, 7-year-old daughter of the Bambi- ntil Stevens signed on with Roes- 1992, she never earned a cent her father's name. In 1995, the anniversary of Ruth's birth, his e will earn close to $1 million. er will circle the bases, too: He lly keeps 40% % of any reve- generated.

A CLIENT LIST TO DIE FOR

Some estates on whose behalf Roesler prowls the globe:

HOLLYWOOD Ingrid Bergman, Humphrey Bogart, James Cagney, James Dean, Marlene Dietrich, Greta Garbo, Edward G. Robinson, Orson Welles

MUSIC Buddy Holly, Liberace, Hank Williams Sr.

SPORTS Ty Cobb, Jack Dempsey, Lou Gehrig, Shoeless Joe Jackson, Vince Lombardi, Joe Louis, Satchel Paige, Babe Ruth, Jim Thorpe

HISTORICAL Amelia Earhart, Jack Kerouac, Will Rogers, Mark Twain, Frank Lloyd Wright, Malcolm X

POTATO. To re- Curtis Manage- s increasingly range, Roesler the process of ing its name to Worldwide. With work of 35,000 cts and a state- -art computer ng system, he's g an internation- kus, particularly ia, where intel- al property s aren't well de- d. In Malaysia Japan, he has tened action st apparel mak- r using Dean to eans and shoes ut paying royalties to Dean's cou- nd 90-year-old father.

South Korea, Roesler has pro- a mini-incident between American Korean trade officials by going after People. The company, founded by inent entertainer Joo Byung-Jin, Dean's name to sell men's and en's fancy underwear—and it 't pay royalties. The U.S. Trade esentative's office backs Roesler, nding that his claim is at the heart S. complaints about theft of intel- al property throughout Asia. Joo, ver, is defiant. He has filed a $1 n libel suit against Roesler in Ko- nd, according to Roesler, told U.S. ssy officials that he'll pay for the s "when Korea becomes a colony of United States." The battle has be- a hot potato for the Korean gov- ent, which first ruled against Roes- ut then pledged a review of its mark laws to make sure that for- rs' rights are protected.

rtis is even tangling with U.S. anies overseas. In Australia, it's ved in a tussle with McDonald's for alleged unauthorized use of Dean's image in a "MacTime Rocks On" campaign to sell burgers and fries. "In much of the world," Roesler notes, "James Dean is bigger than Elvis."

In a fitting geographical coincidence, Roesler grew up five miles down the road from Dean's hometown of Alexandria, Ind. The son of the local postmaster, he put himself through Indiana University Law School at Indianapolis by working as a roofer and never set foot out of the state till he was 21. In 1986, he married Amy SerVaas, the daughter of Beurt R. SerVaas, longtime publisher of the *Saturday Evening Post*. The company gave him the job of guarding the copyrights on 322 magazine covers painted by Norman Rockwell. At the same time, attorneys for Priscilla Presley hired him to set up the $100 million-a-year licensing rights for Elvis' estate, a task that took six years. It also put Roesler on the road to riches: He drives a Ferrari and lives in a palatial home on the outskirts of Indianapolis.

MURKY. Not everyone is enthusiastic about his work. While the concept of "rights of publicity" that heirs can claim has become well established in many state courts, just how far back such claims can go remains murky. Unlike trademarks, which expire after a set period, "rights of publicity" have no limit. Indianapolis consumer lawyer Steven R. Hofer contends that licensing firms such as Roesler's are using bullying tactics to extend privacy rights forever. "Elvis, James Dean, and Babe Ruth are part of our heritage," he says. "If entrepreneurs want to put legends on their products and they can't afford to pay for it, their First Amendment rights are being violated."

But Roesler has a major ally in the U.S. Trade Representative's office, which views his campaign as an extension of its global crusade against piracy of intellectual property rights. "As we fix up problems, guys like Roesler go in and police the marketplace," says one senior trade official. And well they should, he adds : "It's our stuff."

By Douglas Harbrecht in Indianapolis, with Robert Neff in Tokyo and bureau reports

900-555-

Here are just a few of the companies you can call for help and information:

Novell Technical Services
WordPerfect Support
900-555-4010
(First min. free/$2 each add'l min.)

State of Michigan
Security Guard Clearance
900-555-9700 ($5 per call)

STAC Electronics
Premier Technical Support
900-555-STAC ($2.50 per min.)

Ricoh
Printer/Fax Product Support
900-555-RICOH ($10 per call)

AT&T Directory Assistance
900-555-1212
(75¢ for 2 long distance domestic listings; $1.99 for 1 International listing. Introductory prices.)

Borland
Paradox for Windows Software Support
900-555-1006
(First min. free/$2 each add'l min.)

A.M. Best Company
Insurance Company Ratings
and News Products
900-555-BEST ($2.95 per call)

State of New York
Medicaid Provider Line
900-555-2525 (85¢ per min.)

Lotus Development Corporation
Customer Support & Service
900-55-LOTUS ($2.95 per min.)

State of Colorado
Incorporation Information
900-555-1717($1.50 per min.)

AT&T

EDITED BY AMY DUNKIN

GOT THE URGE TO TAKE SOME PROFITS?

INVESTING

Does watching the stock market surge to a new record level week after week tempt you to call your broker and cash in on some of the highfliers in your portfolio? In February, the Dow Jones industrial average topped 4000 for the first time, and, despite red flags such as a falling dollar and weaker consumer spending, on Apr. 24 it closed at a record 4304. Market strategists believe this bull still has room to run. But if you own some of the companies that have led the rally, you're probably itching to get out while you're ahead.

In general, it's best to fight the urge to unload stocks that are performing well. If you sell too early, you not only miss out on future gains but also incur taxes. Even if Congress cuts the capital-gains rate virtually in half this year—as proposed—when you sell a winner, you inevitably have less money to reinvest in a new idea.

NO SENSE. The buy-and-hold strategy has proved the best time and again. Many experts expect a small downturn in the market this summer to "correct" some inflated prices, but they still advise staying the course. "When you add up the costs of commissions, the spread between the bid and the asked price, and taxes, then match that up against a mild 3% to 5% pullback in the market, it doesn't make sense to trade out and take short-term profits," figures Jack Fisher, president of Wilson/Bennett Capital Management in McLean, Va.

That said, there are plenty of good reasons to sell. Maybe you need to raise cash, and it's a question of deciding which stock has the least potential for gains. Or maybe a company's prospects have cooled. And in an optimistic market like today's, some stocks run up so far and so fast that a slide is inevitable.

The key to identifying candidates for selling is to leave aside the larger macroeconomic issues and consider just the company's fundamental strength. And don't focus only on those stocks that have already had a good run. "The sell side shouldn't be that price-driven," says Martin Whitman, manager of Third Avenue Value Fund. "Don't sell anything unless it's grossly overvalued."

The easiest measure for judging a stock's value is its price-earnings ratio. A stock's worth is based on its future earnings potential. If those earnings are small in relation to the price, the stock can be overvalued and its p-e high. To get an accurate reading, you have to compare a company's p-e not with the market average (now at 14.6 based on '95 estimates) but with its industry. For example, a hot tech stock may not be expensive at a p-e of 25, but International Flavors and Fragrances looks pretty pricey at 25
remember that some s
are a better buy when
have a higher-than-norma
Auto stocks typically h
high p-e at the beginni
an expansion, when
earnings are still low.
when you should load u

You'll also need to t
hard look at the quality
company's earnings. A
cent tumbles at U.S. H
care and Sybase have sh
the market is unforgivi
bad news. If a high-p
company's quarterly ear
report is lower than ex
ed, or if a product launch
flat, get out quick—pa
larly if the stock had a
momentum to its rise.
first bad news is the
bad news you're eve

ILLUSTRATION BY HAYES HENDERSON

What's Ahead for Stocks

SECTOR	OUTLOOK
BASIC INDUSTRY-COMMODITY Oil, steel, paper	If the economy reaccelerates and inflation fears return, this sector should take off. Chemical and paper exports are rising.
CONSUMER CYCLICALS Autos, retail, lodging, restaurants	Many stocks are cheap and have good long-term prospects. Hotels should benefit from an increase in foreign tourism due to the weak dollar. But remember, this group is tied to the U.S. economy.
INTEREST-RATE SENSITIVE Utilities, banks, brokerages	These stocks began to plummet as soon as the Fed started raising rates. But rates are stabilizing, and some companies are good buys.
CONSUMER NONCYCLICALS Food, soft drinks, tobacco, drugs	Many are leading the market now. Multinationals are profiting from the falling dollar. Plus, U.S. consumers buy these products even if the economy slows. Share prices are lofty, however.
TECHNOLOGY Computers, electronics, semiconductors	Many tech companies are global players. Semiconductor and computer stocks have been booming, and the market could punish them severely if earnings fall short of expectations.

DATA: MORGAN STANLEY, SALOMON BROTHERS, PRUDENTIAL SECURITIES

to get," says Michael
phy, editor of *Overpriced*
k *Service* newsletter,
h recommends stocks to
short. "Once something
wrong, things tend to
going wrong."

HOPES. With a spate of
ar first-quarter earnings
g reported daily, "look for
s that have been provid-
overly strong surprises
where those aren't likely
ontinue," advises Thom-
IcManus, a U.S.-equity
egist at Morgan Stanley.
y companies got a boost
the declining dollar. But
company's earnings im-
ed just because of ex-
ge rates, you can't con-
that a positive. For
nple, IBM's first-quarter
ings exceeded all ana-
' expectations, driving
price up 5¼ points that
. But part of that rise
ted from exchange rates.
Knie, editor of *The Eq-*
Advisory, a newsletter
short-sellers, doubts IBM
repeat those earnings,
it has done about all
cost-cutting it can. "At
point, IBM has gotten
ahead of itself," he argues.

The entire technology sector has been so hot that some market strategists worry it is vulnerable to a quick chill. "It seems like there are very high expectations built in," says Marc Usem, an equity strategist at Salomon Brothers. Indeed, Microsoft, Intel, and Sun Microsystems have benefited from positive earnings surprises. But disappointing news could reverse the inflows of cash that have propelled share prices.

And don't forget to consider the dividend yield (the overall market's is a low 2.6%) and dividend-payout level (the ratio of dividends paid to earnings) when weeding a portfolio. If the ratio is high relative to the industry, that's a caution signal, since it means there is likely little room to raise the dividend.

Be sure to look at who is buying and selling the stock. If you have a small company that institutions are just starting to buy, it's a good sign. Another is if insiders are purchasing more shares. But don't be too harsh on a company where insiders are selling, advises Harold Levy, manager of First Eagle Fund of America. Since that's often a major part of their compensation, "you have to expect owners to peel off shares every now and then," he says.

Only after you've looked at fundamentals should you consider the impact of any economic news. Try to ignore scary headlines, unless they have a direct impact on the companies you own. Rising interest rates are generally a bad sign for stocks, since bonds may then become an attractive alternative for investors. But you shouldn't get out of the market on news of a rate hike, unless you are heavily into financial and utility stocks, which are interest-rate sensitive.

STEADY STAPLES. There is so much optimism in the market now because strategists believe interest rates will stay low as the economy slows gradually, coming to a so-called "soft landing" from its peak. This prospect has boosted prices of consumer-staple companies, because people buy food, drugs, and soft drinks whatever the economy does. Some consumer multinationals, such as McDonald's and Anheuser-Busch, have prospered because they can participate in worldwide expansion. But consumer cyclicals, such as autos, restaurants, and retailers, are tied to a slowing U.S. economy, and their shares are getting battered.

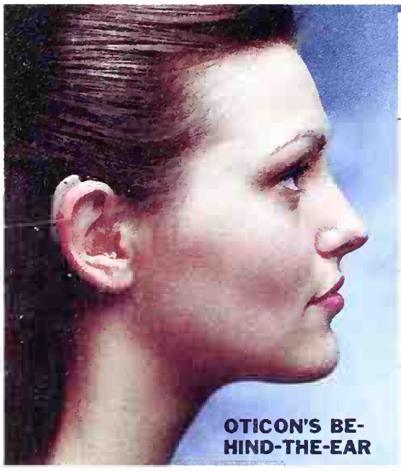
So if you are looking to prune your portfolio, it makes sense to sell defensive stocks that are at all-time highs and buy retreating cyclicals such as paper, autos, and steel. Some of these companies are so cheap that money managers are predicting a wave of foreign takeovers. "I am convinced that, given the very weak dollar, companies in strong-currency countries are going to buy up Corporate America with a vengeance," predicts Whitman.

Selling is easier if, at the time you bought a stock, you set a target price based on the company's fundamentals and economic sensitivity. Then, when it hits the target, reevaluate. "It's not a great idea to start kidding yourself [that] it can go higher," says Murphy. "If there are genuine new reasons to think it can, that's different." And if that's the case, you may actually find yourself buying more of a stock, just when you were thinking about selling. *Amey Stone*

HEALTH

HEARING AIDS GET SMART —AND BETTER-LOOKING

Decades of exposure to loud music, jackhammers, leaf blowers, and other kinds of racket have taken their toll on the hearing of many adults. Yet many who know they have a problem would rather be caught deaf than wear a hearing aid.


OTICON'S BEHIND-THE-EAR

Listen Up

TYPE OF HEARING AID	DESCRIPTION
BEHIND THE EAR (BTE)	Most visible; a case for components hooks behind ear; connects to earpiece via small tube; can be digitally programmed to regulate frequencies so listener can distinguish sounds better
IN THE EAR (ITE)	Sits in the hollow of the ear; needs more maintenance than a BTE aid but can be digitally programmed
IN THE CANAL (ITC)	Barely noticeable; requires frequent battery change and cleaning; cannot be digitally programmed so amplifies all sounds equally

DATA: BUSINESS WEEK

Perhaps they should reconsider. Today's hearing aids are not the unsightly, feedback-generating protuberances that Grandpa used to wear. Advances in technology have made these devices smaller, sleeker, and—thanks to digital programming—better at correcting the most common type of hearing loss, caused by nerve damage.

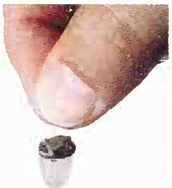
THIMBLE OR PEA. Hearing aids come in three varieties: behind the ear (BTE), in the ear (ITE), and in the canal (ITC). Those placed in the ear or ear canal are about the size of a thimble and pea respectively—much smaller than devices that house mechanical components in a curved case that hooks behind the ear and connects to an earpiece via a small plastic tube. "Aids today can go so far within the ear that they're virtually impossible to see," says Dr. Mark Ross, professor emeritus at the University of Connecticut and author of several articles on hearing-aid technology.

Aids that fit inside the ear or canal require more attention, however. Their tiny batteries expire as often as every week, and exposure to ear wax causes more frequent repairs. Also, the smallest aids don't have room for the circuitry necessary for customized options. Dr. Robert J. Ruben, chairman of the department of otolaryngology at Montefiore Medical Center in the Bronx, N.Y., notes that with increased hearing-aid size comes greater versatility. People willing to wear a slightly larger device gain "the capability to tune it exactly to their type of hearing loss and hear only what they want to hear."

Until recently, all hearing aids amplified sounds equally, regardless of frequency. Low-frequency sounds, which include background din at a cocktail party and popcorn-crunching at the movies, were always given the same emphasis as high-frequency sounds, such as conversation with friends at the party or between characters on the screen. The result was a lot of noise but few distinguishable sounds. Most hearing loss occurs in the softer, high-frequency range, and this compounds the problem. The wearer of a traditional hearing aid often hears everything but understands little in situations where there is a spectrum of sounds.

The advent of digitally programmed hearing aids about five years ago changed that. These devices use the same technology as computer microchips to customize amplification to hearing loss. Programmable BTE and ITE aids enable audiologists to turn up some frequencies while keeping others at normal input levels. The high-frequency sound of a confidential whisper can be heard even when there's a babel of background noise.

Several programmable hearing aids also have memories that store frequency-amplification configurations for different situations. By push-
ing a button on a wireles
mote control, the weare
signal the hearing ai
switch between individua
settings for optimal o
home, telephone, and
concert listening.


STARKEY'S TINY DEVICE

NIGHTCLUB DIN. Kathy E
ley, a stand-up comic
spokesperson for the non
it Better Hearing Inst
(800 EAR-WELL), wea
programmable aid that
special settings
performing and
performing s
tions. Previo
she had a hard
hearing a nigh
audience's resp
to her act ove
competing soun
clinking glasses
roaring air conditio
"Now, I hear people's la
ter more distinctly, w
makes performing more
joyable," she says.

Good hearing aids
come cheap. The digi
programmed kind, mad
such companies as 3M,
Sound, Phonak, Whidex,
key Laboratories, and Ot
run $3,500 to $4,500 a
90% of those with hea
loss need correction in
ears. To get a high-qu
nonprogrammable aid
low distortion, uniform
plification, and manually
justed volume control,
should expect to pay $
to $2,000 a pair. Healt
surance will usually c
some of the cost. And if
vanity pays a price, y
pick up sounds again that
didn't even know you
been missing. *Kate Mu*

WORTH NOTING

OLYMPIC TICKETS. The rush for 11 million tickets t
the 1996 Olympic Games in Atlanta begins on May 1
when 36 million mail-order forms become available
nationwide at Coca-Cola displays in grocery stores
at Home Depot retail outlets. Prices for sporting
events range from $6 to $250. Ceremony tickets cos
$200, $400, and $600. Act fast: Orders are filled on a
first-come, first-served basis. Seat assignments to
oversubscribed events will be decided by computer
lottery drawing from ticket requests postmarked
between May 1 and June 30. For more information,
call 404 744-1996.

The new Phaser printer is to color what a laser is to black & white.

GLOBAL MARKETING REPORT
Business Color Printers
PRINTER PRICE
Phaser 340
Color Laser
MAQUILLAGE
PROPOSAL
Perspective 2
THE POWER OF COLOR

__4 full-color pages/minute.__ Twice the speed of a color laser.

__Just $4,995.__ About one-half a color laser's price.

__Near photo-quality color.__ To 600 dpi.

Low cost. *11¢/color page. 3¢ black.*

s practical as your laser printer,
t prints 16.7 million more colors.

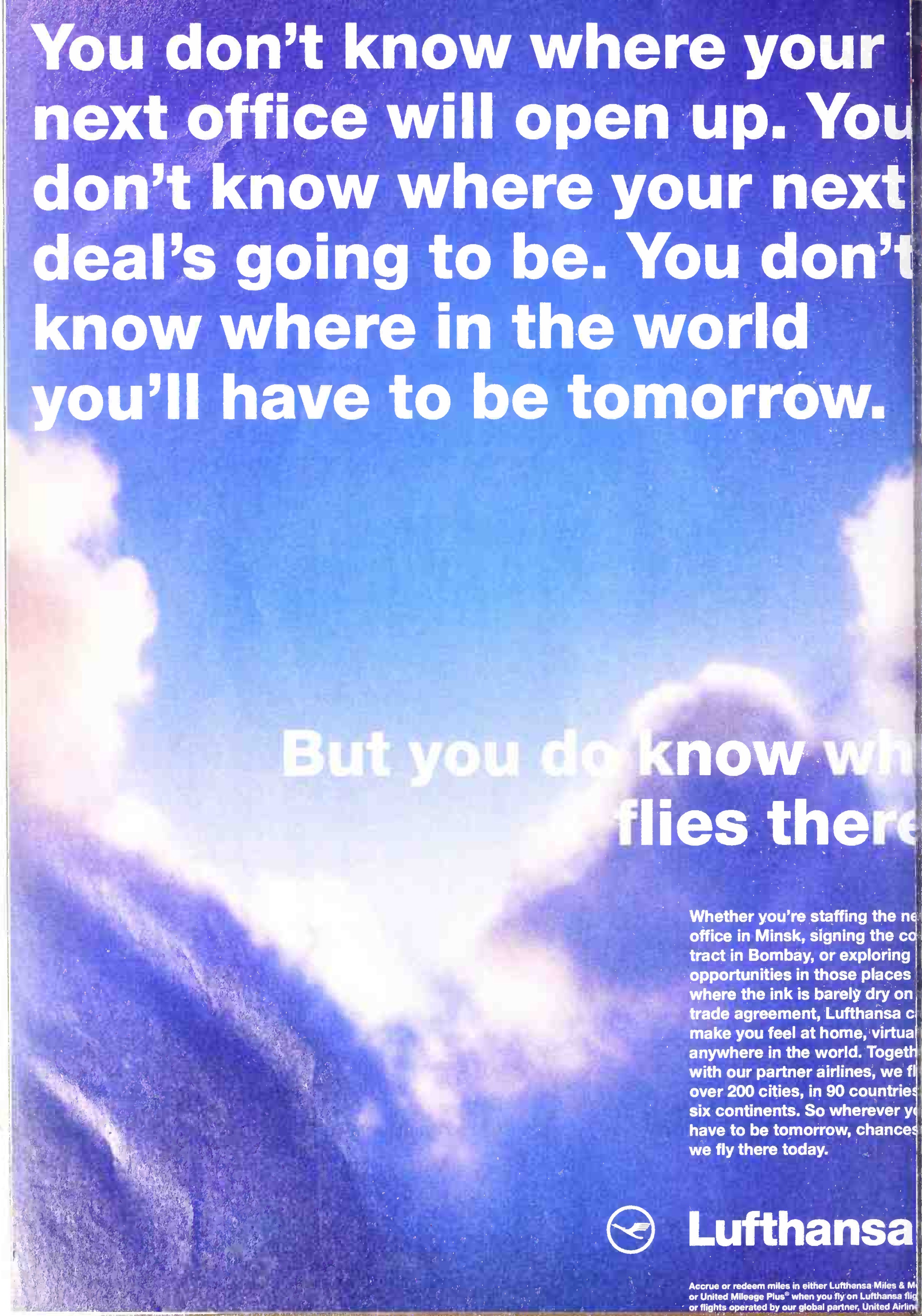
e new Phaser 340, the world's fastest op color printer. It prints stunning color on ordinary office papers and brilliant color on transparencies.

> *"Tektronix set a new standard for the world with the Phaser 340."*
>
> — PC Magazine
> *April 25, 1995*

It comes with PostScript™ Level 2 and works with PCs, Macs or workstations. It's fully networkable, so everyone in your workgroup can access professional color. For little more than the price of your laser. It adds up to a practical solution for color output across the enterprise.

For a free color sample, call 800/835-6100, Ext. 1046.

Tektronix



You don't know where your next office will open up. You don't know where your next deal's going to be. You don't know where in the world you'll have to be tomorrow.

But you do know wh
flies there

Whether you're staffing the ne
office in Minsk, signing the co
tract in Bombay, or exploring
opportunities in those places
where the ink is barely dry on
trade agreement, Lufthansa c
make you feel at home, virtua
anywhere in the world. Togeth
with our partner airlines, we f
over 200 cities, in 90 countries
six continents. So wherever y
have to be tomorrow, chances
we fly there today.

Lufthansa

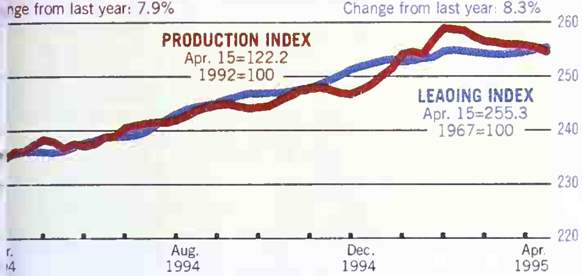
Accrue or redeem miles in either Lufthansa Miles & M
or United Mileage Plus® when you fly on Lufthansa flig
or flights operated by our global partner, United Airlin

ısiness Week Index

DUCTION AND LEADING INDEXES

nge from last week: –0.3%
nge from last year: 7.9%

Change from last week: 0.2%
Change from last year: 8.3%



xes are 4-week moving averages

roduction index slipped slightly during the week ended Apr. 15. The before calculation of the four-week moving average also dropped, to from 121.9. Seasonally adjusted output levels of autos and trucks ed for the week.

ading **index** continued to rise in the latest week. The unaveraged index up to 256.1, from 255.2. Higher stock prices and lower bond yields ading the runup.

uction index copyright 1995 by The McGraw-Hill Companies BW leading index copyright 1995 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/22) thous. of net tons	2,031	1,970#	9.3
AUTOS (4/22) units	124,195	117,228r#	–13.4
TRUCKS (4/22) units	102,564	93,397r#	–17.6
ELECTRIC POWER (4/22) millions of kilowatt-hrs.	54,908	54,301#	3.4
CRUDE-OIL REFINING (4/22) thous. of bbl./day	14,046	13,615#	0.5
COAL (4/15) thous. of net tons	19,620#	19,673	–7.6
PAPERBOARD (4/15) thous. of tons	913.7#	892.7r	8.7
PAPER (4/15) thous. of tons	860.0#	849.0r	6.0
LUMBER (4/15) millions of ft.	434.3#	425.4	–4.9
RAIL FREIGHT (4/15) billions of ton-miles	23.2#	23.6	0.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (4/21) S&P 500	506.04	507.24	13.8
ORATE BOND YIELD, Aaa (4/21)	8.02%	8.04%	1.1
STRIAL MATERIALS PRICES (4/21)	114.9	114.7	NA*
NESS FAILURES (4/14)	313	351	69.2
ESTATE LOANS (4/12) billions	$472.5	$471.7r	10.2
Y SUPPLY, M2 (4/10) billions	$3,606.4	$3,599.3r	1.2
AL CLAIMS, UNEMPLOYMENT (4/8) thous.	347	342	–0.9

es: Center for International Business Cycle Research (CIBCR), Standard & , Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ss failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/26) $/troy oz.	388.900	395.550	4.3
STEEL SCRAP (4/25) #1 heavy, $/ton	137.50	137.50	0.0
COPPER (4/22) ¢/lb.	137.2	141.5	49.7
ALUMINUM (4/22) ¢/lb.	90.0	90.0	46.8
COTTON (4/22) strict low middling 1-1/16 in., ¢/lb.	106.12	106.76	36.6
OIL (4/25) $/bbl.	20.28	20.10	20.0

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
RAL FUNDS (4/25)	5.97%	5.98%	3.59%
MERCIAL PAPER (4/26) 3-month	6.09	6.10	4.15
IFICATES OF DEPOSIT (4/26) 3-month	6.08	6.11	4.12
MORTGAGE (4/21) 30-year	8.49	8.57	8.61
STABLE MORTGAGE (4/21) one-year	6.36	6.35	5.16
E (4/26)	9.00	9.00	6.75

es: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/26)	83.97	81.23	101.20
GERMAN MARK (4/26)	1.38	1.36	1.66
BRITISH POUND (4/26)	1.61	1.62	1.51
FRENCH FRANC (4/26)	4.86	4.82	5.70
ITALIAN LIRA (4/26)	1707.6	1713.1	1595.8
CANADIAN DOLLAR (4/26)	1.36	1.37	1.38
MEXICAN PESO (4/26)[3]	5.825	6.165	3.327

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defen- nent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

ONAL INCOME

ay, May 1, 8:30 a.m. ▶ Incomes bly grew 0.4% in March, on top of a rise in February, says the median ist of economists polled by The w-Hill Companies' MMS International. mer spending likely rose 0.3%, after ary's 0.1% gain.

TRUCTION SPENDING

ay, May 1, 10 a.m. ▶ March outlays ilding projects probably fell 0.5%, me as in February.

SURVEY

ay, May 1, 10 a.m. ▶ The National iation of Purchasing Management's business index likely slipped to 50% in April from 51.4% in March.

NEW HOME SALES

Tuesday, May 2, 10 a.m. ▶ Sales of new houses probably rebounded to an annual rate of 560,000 in March, after plunging 14% in February, to a 551,000 pace.

LEADING INDICATORS

Wednesday, May 3, 8:30 a.m. ▶ The index of leading indicators likely fell 0.3% in March, on top of February's 0.2% dip.

FACTORY INVENTORY

Wednesday, May 3, 10 a.m. ▶ Manufacturers' inventories probably changed little in March, after a 0.8% jump in February. Last quarter's buildup in inventories is sure to lead to production and job cuts.

EMPLOYMENT

Friday, May 5, 8:30 a.m. ▶ The MMS economists expect that nonfarm payrolls rose by a modest 188,000 new jobs in April—less than the 203,000 increase in March. The unemployment rate in April probably remained at 5.5%.

INSTALLMENT CREDIT

Friday, May 5 ▶ Consumer debt likely grew by $6 billion in March. That's less than the $8.2 billion added in February and is another sign of slower consumer spending.

This Week, Online

Business Week presents live conferences with editors and newsmakers. It's your opportunity to ask questions about features from the magazine.

BusinessWeek ONLINE

Sunday

Genetic medicine: How big will the payoff be for patients—and industry? And how fast will the payoff come? Jumping off from the Cover Story ("The Gene Kings") in this issue, two seasoned BW science writers, Correspondents John Carey in Washington and Joan O'C. Hamilton in San Francisco, will be online.

Apr. 30
9 p.m. EDT in the Globe

Monday

What's the job market like for this year's crop of MBAs? Get the inside word on 1995 prospects from Kathryn Van Ness, director of the MBA Career Management Center at UCLA's Anderson School, along with BW Senior Writer John Byrne. **May 1**
9 p.m. EDT in the Bowl

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

For a free trial diskette including 10 free hours on AOL, call 1-800-641-4848 and mention Business Week.

America Online

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This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

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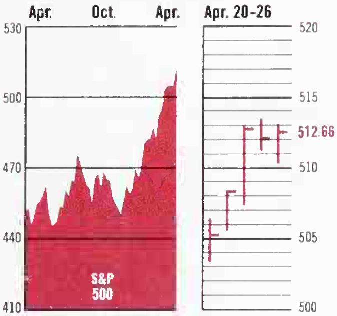
vestment Figures of the Week

ENTARY

:ontinued their strong upward
with the Dow industrials surg-
points for the week. The U. S.
is outpacing the major foreign
by a wide margin. Since the
ng of the year, the Dow Jones
al average is ahead 12.1%
Standard & Poor's 500-stock
up 11.6%, while the best
abroad is the London mar-
i% gain. The key to the strong
formance: robust earnings—
lly among the computer com-
Interest rates remain sub-
nd that means that stocks
tinue to move higher.

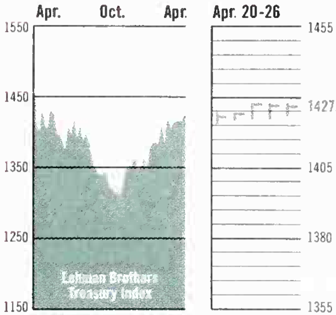
STOCKS



52-week change +13.5%

1-week change +1.5%

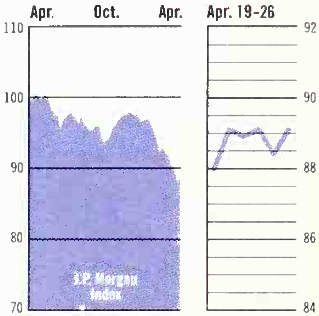
BONDS



52-week change -1.8%

1-week change +0.5%

THE DOLLAR



52-week change -10.8%

1-week change +1.3%

KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
IES INDUSTRIALS	4299.8	2.2	16.2
COMPANIES (S&P MidCap Index)	184.6	1.7	7.2
OMPANIES (Russell 2000)	264.9	1.6	5.6
IPANIES (Russell 3000)	291.1	1.5	11.6

N STOCKS	Latest	% change (local currency) Week	52-week
(FINANCIAL TIMES 100)	3226.2	1.8	2.4
NIKKEI INDEX)	16,826.5	2.8	–14.7
(TSE COMPOSITE)	4282.9	0.0	–0.1

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.82%	5.75%	3.98%
30-YEAR TREASURY BOND YIELD	7.32%	7.36%	7.11%
S&P 500 DIVIDEND YIELD	2.50%	2.55%	2.78%
S&P 500 PRICE/EARNINGS RATIO	16.3	16.7	20.1

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	471.3	469.6	Positive
Stocks above 200-day moving average	63.0%	62.0%r	Neutral
Speculative sentiment: Put/call ratio	0.74	0.67	Positive
Insider sentiment: Vickers sell/buy ratio	1.21	1.14	Positive

BLOOMBERG FINANCIAL MARKETS

STRY GROUPS

ONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
NSE ELECTRONICS	19.1	31.6	E-SYSTEMS	44.3	55.8	63½
HINE TOOLS	17.6	0.6	CINCINNATI MILACRON	30.4	38.6	27⅜
INES	15.1	9.1	USAIR GROUP	41.5	11.5	7¼
NGS AND LOANS	14.4	14.4	GOLDEN WEST FINANCIAL	17.0	13.2	43⅞
ND GAS DRILLING	10.0	3.2	HELMERICH & PAYNE	11.9	9.8	29⅜

ONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
;	–27.8	–16.3	U.S. HEALTHCARE	–36.1	–33.5	28¾
IDCASTING	–12.0	0.4	TELE-COMMUNICATIONS	–17.5	–8.4	17⅝
; CHAINS	–6.4	12.7	RITE AID	–10.0	20.7	22⅝
R CONTAINERS	–4.6	14.5	BEMIS	–6.4	19.5	27⅝
HOLIC BEVERAGES	–4.6	1.4	SEAGRAM	–15.2	–4.8	27⅛

UAL FUNDS

MORNINGSTAR INC.

RS

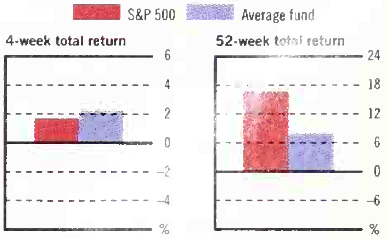
ek total return	%
IHT EQUIFUND-MEXICO NATL. FID. EQTY.	19.4
N	14.8
APANESE SMALL COMPANY	14.8

k total return	%
GMAN COMMUNICATIONS & INFORM. A	53.9
TT SMALLER COMPANIES	44.0
NCE TECHNOLOGY A	43.7

LAGGARDS

Four-week total return	%
AMERICAN HERITAGE	–7.7
STEADMAN AMERICAN INDUSTRY	–7.4
MFS OTC B	–6.2

52-week total return	%
MONITREND GOLD	–36.2
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–34.6
STEADMAN AMERICAN INDUSTRY	–34.1



ATIVE PORTFOLIOS

DRI/McGRAW-HILL

mounts represent the
value of $10,000
d one year ago
portfolio

tages indicate
y total returns

U.S. stocks	Foreign stocks	Money market fund	Treasury bonds	Gold
$11,583	$11,346	$10,518	$10,436	$10,413
+1.33%	+0.02%	+0.18%	+0.80%	-0.79%

n this page are as of market close Wednesday, Apr. 26, 1995, unless otherwise indicat-
try groups include S&P 500 companies only; performance and share prices are as of market close Apr. 25. Mutual fund returns are as of Apr. 21. Relative portfolios are valued as of Apr. 25. A more detailed explanation of this page is available on request. r=revised NA=Not available

RHETORIC AND VIOLENCE

Say what you will about the vast differences between the liberal '60s and the conservative '90s. The two decades have this much in common: Both were filled with vitriolic antigovernment rhetoric and both saw innocent people killed by bombs set off to protest perceived government tyranny. The actual violence came from the fringe, but the verbal violence was floridly expressed by established social and political figures and organizations. Left-wing fanatics blew up a lab at the University of Wisconsin, but the recipe for making bombs was printed in *The New York Review of Books*. Right-wing fanatics blew up the federal building in Oklahoma City, but the bomb formula was readily available on the Internet.

Language has power, and one message it has expressed lately is that the American government is somehow illegitimate, held hostage by evil elites hostile to the masses. There has been a second message as well: Truth lies in the simplicity of extremes, not in the complexity of the middle. Shouted on TV and radio, printed on E-mail and electronic bulletin boards, published in newspapers and magazines, even voiced in the halls of Congress, this language of alienation and anger has dominated public discourse. There's even a name for it on the airwaves—"sharp-elbow" shows, where guests nail their opponents by using explosive language to paint them as extremists. It is an interchange that admits no complexity of issue or compromise of policy.

It is, of course, absurd to hold public officials and pundits responsible for the lunatic actions of a few individuals.
cians who call for a smaller federal government do not c
a climate for violence. Nor do those who claim that many
suffer without a big government.

But it is the height of irresponsibility for leaders t
that the tone and content of their own public discourse
no role in shaping society. Demonizing opponents dev
them as human beings. Delegitimizing government e
its authority. Describing oneself as a "bomb thrower" n
one a metaphorical ally of those who do throw bombs.

It doesn't help when a Democratic congressman cal
Republican opponents "Nazis" because they want to re
welfare and reduce government spending. It doesn't
when the Republican Speaker of the House describe
Clinton Administration as "the enemy of normal Americ
And it doesn't help when Jesse Helms, the Repub
senator from North Carolina, tells the President that he
ter stay out of his state unless he brings a bodyguard to
tect him.

It is time for the verbal violence to stop, for the go
ment-is-bad rhetoric to end, and for the demonization of
ical opponents to cease. The diligent rescue workers in
homa City are, after all, government employees. The dil
officers who are tracking down the killers work for the
ernment. America lives in the middle, not in the extrem
is time for civility to be returned to our society.

A U.S.-EUROPE TRADE PACT? WHY NOT?

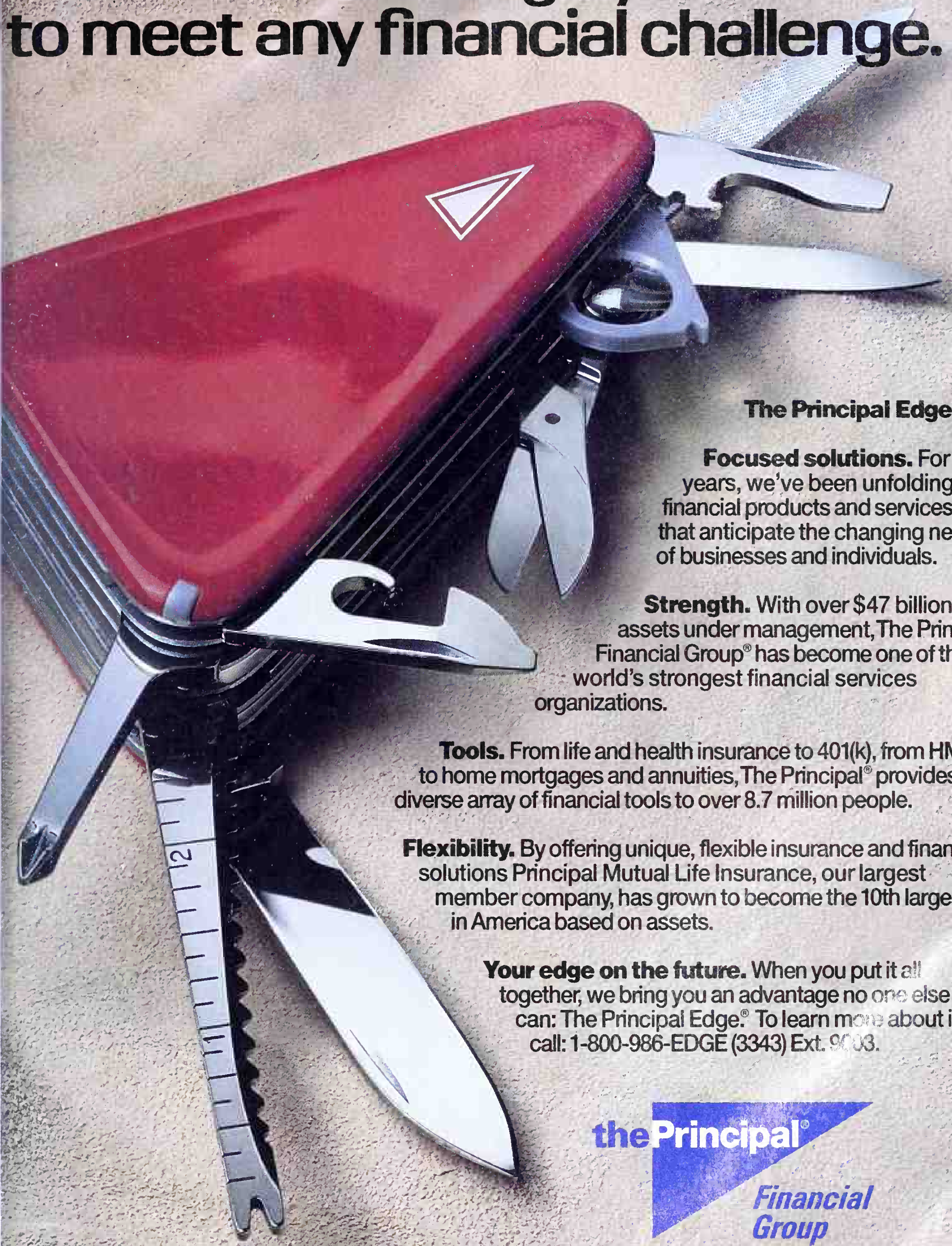
First there was NAFTA. Now there is TAFTA—the Transatlantic Free Trade Agreement. Trial balloons are going up on both sides of the Atlantic on a proposed European-American deal between like-minded, free-market, free-trade economies. It is a proposal that deserves serious, but cautious, attention.

The argument for TAFTA goes like this: The U.S. and Europe basically have similar, open, economic systems compared with the more closed, mercantilist capitalism of Asia. Unlike U.S.-Asian trade, the trade flowing across the Atlantic follows the ups and downs of currencies because markets are generally open. Movement of goods and capital are generally in balance over time, again unlike trade with Asia, where the U.S. deficit keeps growing no matter what. So why not formalize economic relations among countries where trade and investment are on a fairly level playing field?

No reason at all. For too long, U.S.-European relations have been defined mainly in terms of security needs. Now, economics is paramount. A long-standing romance with Asia may be blinding the U.S. to the realities of Asian commerce: limitations placed on foreign direct investment and unfair protectionist barriers to imports. The Japanese mercantilist economic model is popular from Korea to Malaysia. Most important, a grand Euro-American economic coalition of two
nents based on free and open markets may be the only
to pressure Asians to act according to the free-trade prin
from which they have benefited so much.

The danger would be if TAFTA becomes a country cl
trade. Just as Malaysia talks of building an Asian econ
bloc excluding the U.S., Australia, and New Zeala
"caucus without caucasians"—some TAFTA proponents see
tent on creating a "caucus with only caucasians." It is
bling that TAFTA's provenance includes free-trade revisi
such as Sir James Goldsmith, who argue that globaliz
hurts European and American living standards. Their sol
limit trade with low-wage countries and build a kind of t
atlantic economic fortress.

That would be a big mistake. However painful it may
times, global economic integration is driving U.S. gr
and productivity. Yet time may be running out for free t
Sadly, Japan's mercantile policies and Asia's wish to f
them is beginning to push U.S. and European policymake
think of free-market alternatives. Unless Asia starts to
away from mercantilism, the TAFTA idea, a second-best sol
right now, may soon become a first choice.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CAN LARRY BEAT BILL?

Oracle CEO Larry Ellison's goal: To conquer Microsoft on he I-Way PAGE 88

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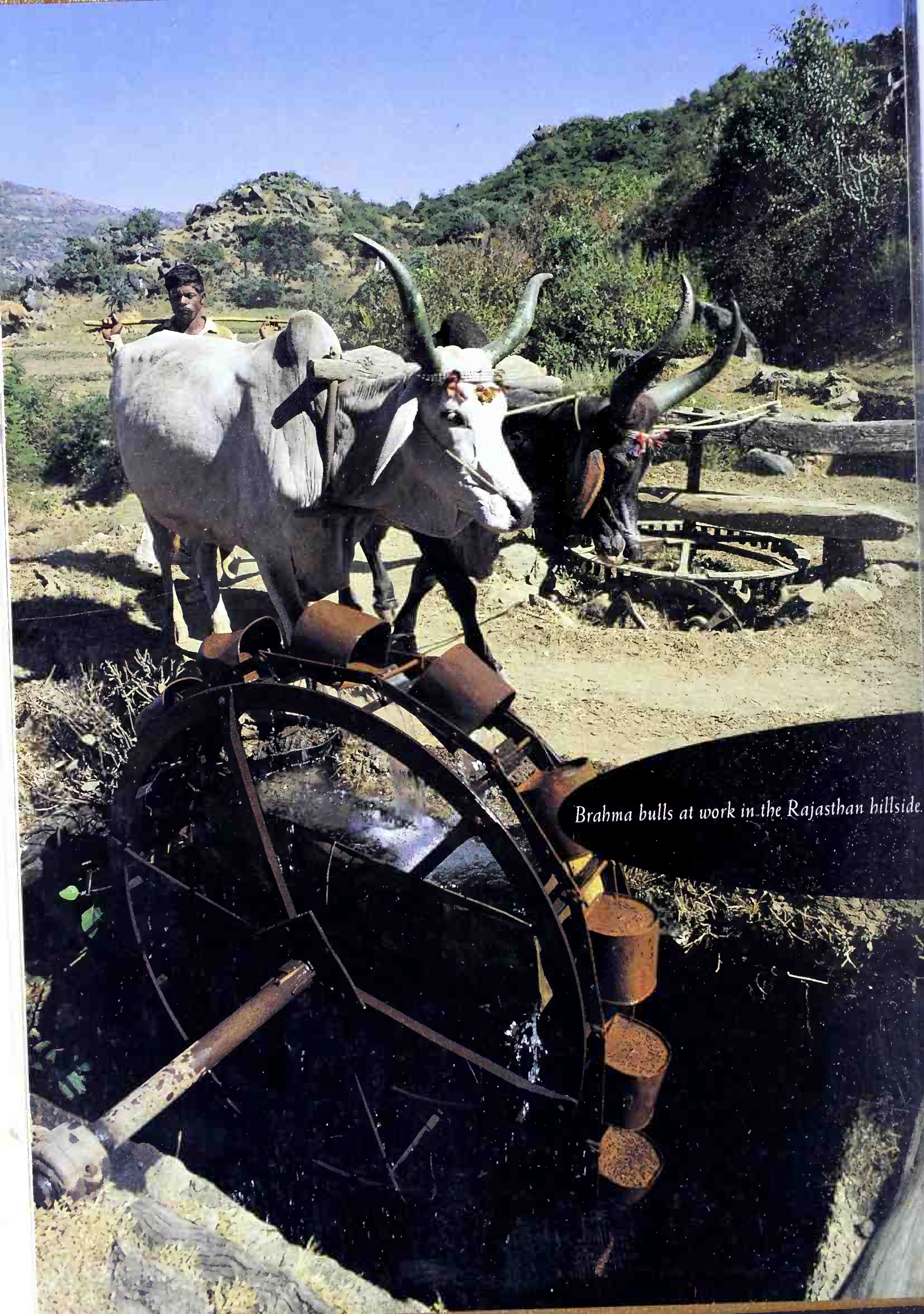

Brahma bulls at work in the Rajasthan hillside.

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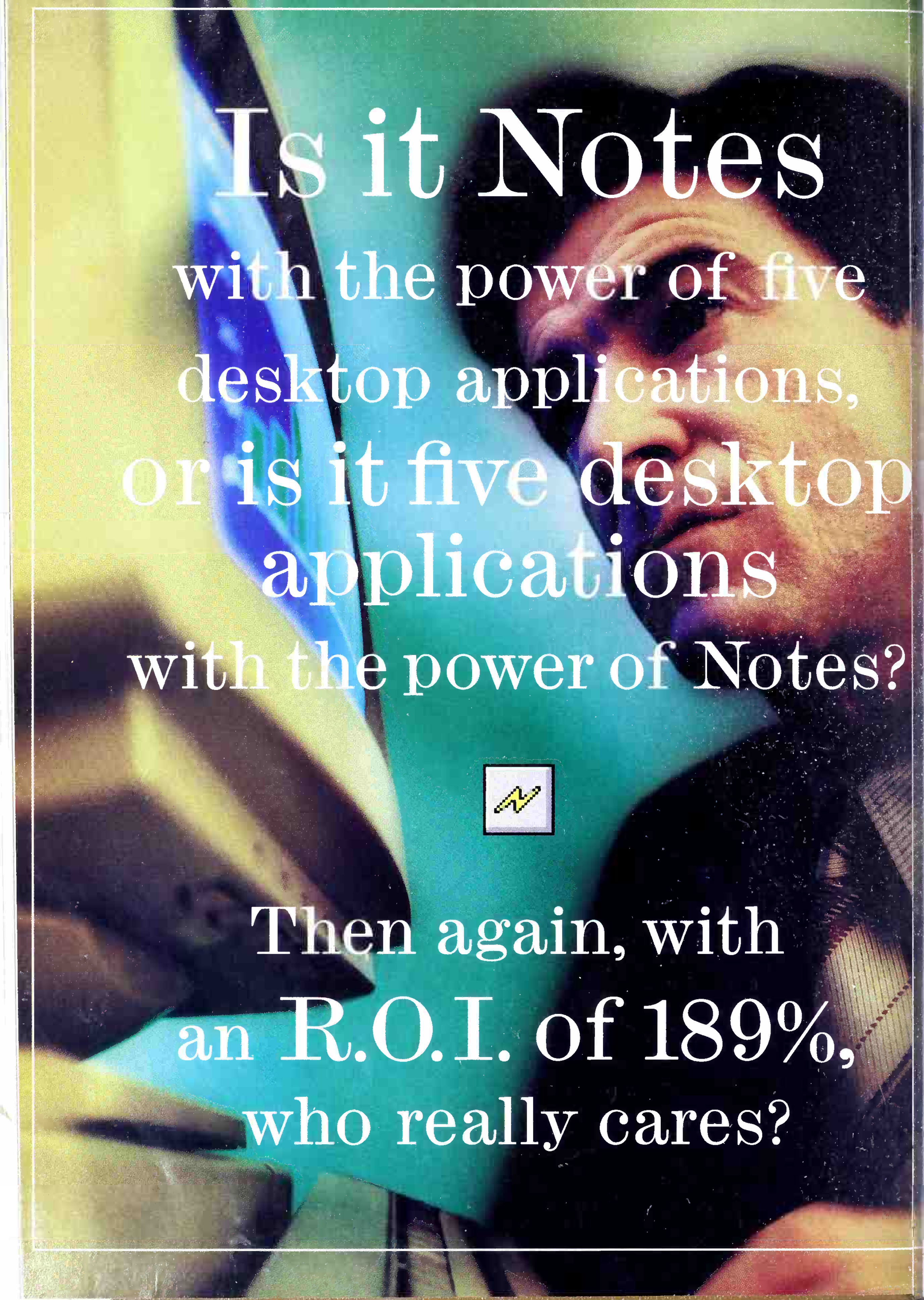
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with the power of five
desktop applications,
or is it five desktop
applications
with the power of Notes?
Then again, with
an R.O.I. of 189%,
who really cares?

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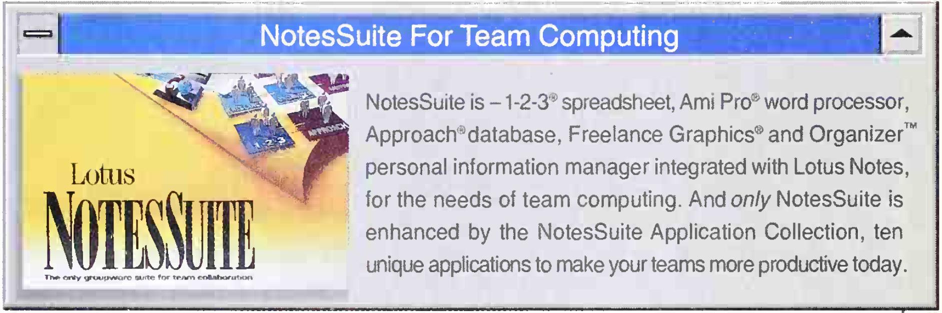

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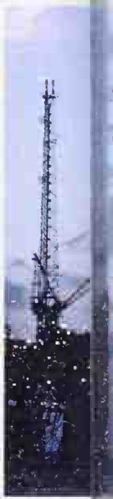
BusinessWeek
MAY 15, 1995

COVER ST

I-WAY RIVALR
Larry Ellison's
gets pumped u
an assault on s
titan Microsoft
a tough target



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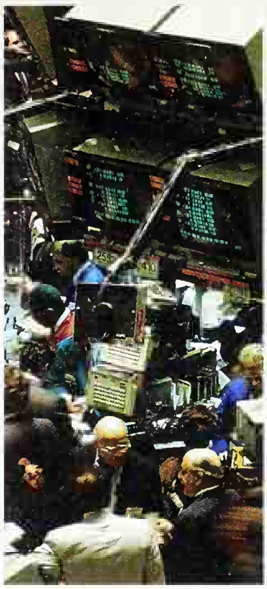

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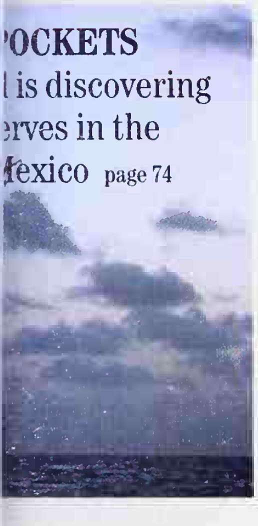

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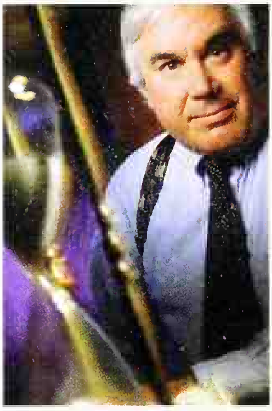

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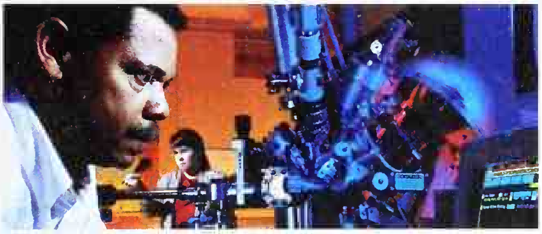

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Up Front

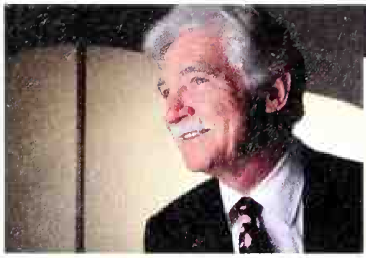
EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW “I believe it is wrong to slash Medicare an Medicaid to pay for tax cuts for people who are well off.”

—President Bill Clinton, on the GOP plan to cut government health care for the poor and elderly

EXECUTIVE SWEETS

A TICKET TO RIDE—IN STYLE



JERRY SANDERS
Chairman & CEO
Advanced Micro Devices

$93,206
Car and driver in 1994

FOR LOTS OF TOP executives, commuting is a company-paid perk. These trips, usually chauffeur-driven, can be a hefty expense—especially for those living far from headquarters.

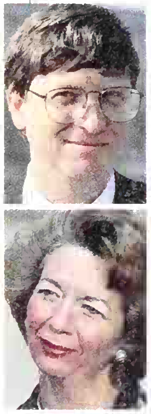
A couple of this year's proxies show how hefty. Jerry Sanders, Advanced Micro Devices' chief, got a $93,206 benefit last year for the driver and Mercedes that shuttles him the 50 miles between his San Francisco home and Silicon Valley. An AMD spokesman says Sanders can work en route.

The justification is similar for Merck Executive Vice-President Edward Scolnick ($58,955 in commuting benefits), ferried between the Philadelphia suburbs and the company labs in Rahway, N.J. Ditto for Chief Financial Officer Judy Lewent ($55,855), who goes from New York to Merck's headquarters in Whitehouse Station, N.J. Both use helicopters or cars.

Why did AMD and M bother to report the cos all? Because the expense ceed 25% of what the calls “other annual com sation,” which excludes s and bonus—the legal req ment for reporting. Johnson, head of execu pay consultant Johnson sociates, suspects many panies go over the 25% yet simply don't comply the rules. Indeed, a su of big-company proxie the Washington Docu Service found no other tions of commuting. At this perk is taxable. *Ric Brandt and Joseph We*

THE FEDS

A GRUDGE MATCH WITH MICROSOFT?



ROUND 2: *Gates and Bingaman*

THE JUSTICE DEPT. SEEMS understandably sensitive after a judge slammed its July antitrust settlement with Microsoft as too lenient. So is Justice now trying to scuttle Microsoft's $2 billion acquisition of Intuit to show that the feds aren't getting soft? Maybe so, if you look at the timing of how Justice handled the banks, who worry that their bids to launch online financial services would suffer as a result of the union.

Back in October, Microsoft Chairman Bill Gates proposed buying Intuit, whose Quicken program dominates the personal-finance software market. Yet Justice had questioned few bankers as it examined the deal. All that changed in mid-February, when U.S. District Judge Stanley Sporkin rejected the Justice-Microsoft pact. Soon after, Justice flooded the banking industry with subpoenas to get its views on the Intuit deal. On Apr. 27, antitrust chief Anne Bingaman sued to block the deal.

Deputy Assistant Attorney General Steven Sunshine says that there's no connection between Sporkin's blast and the Intuit action. Antitrust lawyer Jeffrey Jacobovitz, who has filed complaints about the Justice-Microsoft settlement, contends that Justice “had no alternative but to challenge the merger because of the negative publicity Justice had gotten.” *Catherine Yang*

THE LIST BOARDROOM MANNA

Chrysler may have fended off Kirk Kerkorian, but if it announces a new stock buyback plan, it won't be alone. With profits strong, companies have been on a buyback spree since 1992. The point is to boost the share price and please investors. At IBM, a buyback (along with soaring earnings) has helped boost the stock 28% since its January kickoff. The monster buyback of 1995 was DuPont's $8.8 billion for most of Seagram's 24% stake. Other investors benefited: DuPont's stock has surged 13%.

LARGEST 1995 STOCK BUYBACKS

	MILLIONS OF DOLLARS*		MILLIONS OF DOLLARS*
DUPONT	$8,800	WELLS FARGO	$793
IBM	2,500	HEWLETT-PACKARD	750
BANKAMERICA	1,900	FIRST UNION	648
AMERICAN EXPRESS	1,360	TRAVELERS	600
CONAGRA	821	GENERAL MOTORS	583

*VALUE ON DATE OF ANNOUNCEMENT

DATA: SECURITIES DATA CO., BW

WILD BLUE YONDER

THE SECOND BATTLE OF BRITAIN

UNITED: *Unfriendly Heathrow s*

UNITED AIRLINES HAS been grounded by archrival American Airlines' Machiavellian tactics over valuable London landing rights. United wanted to fly directly from its Chicago O'Hare hub to London's Heathrow—and bag an extra $200 million in yearly revenue.

United's Chicago passengers now must fly to o domestic airports with He row routes. American has same hassle from its D hub. To get a direct He row link for United, U.S. gotiators had agreed to British Airways an ad daily flight to Philadelph

Enter American. It suaded Washington to g in on the Heathrow U.S. bargainers pu American's plan to giv and other carriers Heath and, in exchange, let fe workers fly on BA. But British rejected that, fe the relatively small-vol federal-worker business not a fair trade. So the fell apart. United say won't quit trying for He row. American Airlines cials say they counted on scotching United's p than getting their own route. *Christina Del V*

rand Prix Sedan

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Up Front

SHOW BIZ

A STOP ON THE DIAL FOR THE DISABLED

A 24-HOUR CHANNEL FOR disabled people has started operations across the U.S. Called Kaleidoscope, the San Antonio-based channel figures it can find an audience among the estimated 49 million Americans with some form of physical handicap. The Apr. 30 launch was an expansion of a three-hour-a-day service that began in 1990, the day President George Bush signed the Americans with Disabilities Act.

Now available to 15 million homes, Kaleidoscope already offers a wide program lineup. Former House Whip Tony Coelho, an epileptic, hosts a show focused on Washington issues related to the disabled. Vintage movies are captioned for the deaf. For blind persons, voice-overs describe the action. There's *Kim's World*, a talk show with a signing host, Kim Powers, who is deaf and blind. In the planning stage are sitcoms with handicapped actors and a shopping service featuring products for the disabled.

Some of the $80 million needed for the programming will come from fees that cable companies, required to screen public-interest programs, pay to carry the channel. Cash already comes from advertisers such as AT&T, Mattel, and J.C. Penney, which, for instance, pushes Velcro-fitted clothing. Plus, Kaleidoscope is negotiating with cable titan Tele-Communications Inc. to take an equity stake. *Ronald Grover*

KIM'S WORLD: *The host signs*

WORKING OVERSEAS

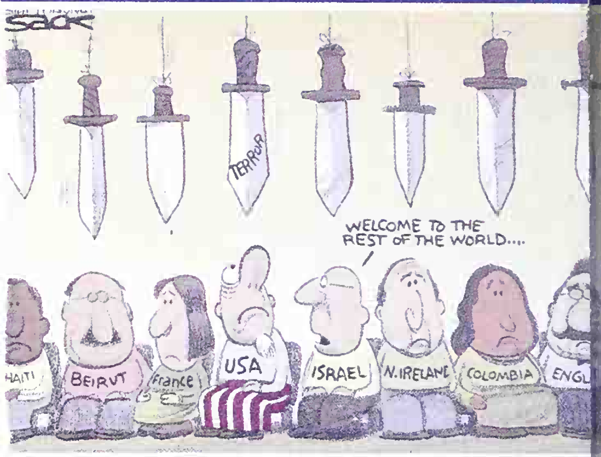
RULE NO. 1: DON'T DISS THE LOCALS

WHO SHOULD GET THAT PLUM foreign assignment? A lot of companies tap employees who are aces at technical matters or management. However, a new study finds other skills more important for an American to be successful overseas.

Horror stories abound, according to Prudential Relocation Intercultural Services, which did the study. There was the company that sent an evangelical Christian to Saudi Arabia. He offended locals by setting up a Bible group and got booted out of the country. A U.S. oil outfit transferred an executive to Peru, where he told jokes deriding the natives' industriousness and excluded them from his parties. His employees griped to the government, which canceled the company's oil concession.

Prudential Relocation, an arm of Prudential Insurance, asked 72 personnel managers working at multinationals to name the best trait for overseas success. Nearly 35% said cultural adaptability: patience, flexibility, and tolerance for others' beliefs. Only 22% of them listed technical and management skills. *Sandra Dallas*

DRAWN & QUARTERED



AFTERLIVES

THIS MOGUL SWEARS OFF MEDIA

NO MEDIA DEALS, PLEASE. That's the credo of Martin Davis, who is now in the buyout biz. Davis, ex-CEO of Paramount, thinks buying media and entertainment assets is just too expensive. He ought to know.

A year ago, Davis stepped down at Paramount after helping swing one of the most celebrated media deals of all time: his outfit's $10 billion purchase by Viacom. At six times cash flow, that was considered rich at the time, but it still was less pricey than the 15 times cash flow, or $5.7 billion, that Edgar Bronfman's Seagram is

ing for MCA. Davis won't

ment on the Bronfman

Davis, now 67 and a

member of Viacom's pa

National Amusement

looking for institutional

ey for his new invest

firm. Wellspring Assoc

which opened in

uary, has hired

professionals

top-flight places

catch: GE Cap

Robert Johan

Davis' strategy

buy underperfor

industrial compa

such as an auto-

maker, and turn

around. Irony:

he became CE

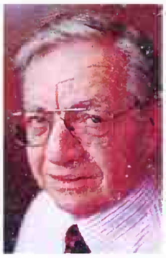
Paramount (then called

& Western) in 1983, h

vested scores of smoke

outfits to focus on media

entertainment.



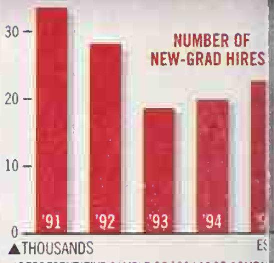
DAVIS: *In the buyout game*

THE BIG PICTURE

CAMPUS HIRING REBOUNDS

Good news for Generation X. After years of corporate cold shoulders, campuses find hiring of new grads is up 13.9%. A survey shows the biggest turnaround is for freshly minted PhDs, climbing 34.5% since last year. Bachelor-degree hires rose 12.2%; MBAs, 6.6%.

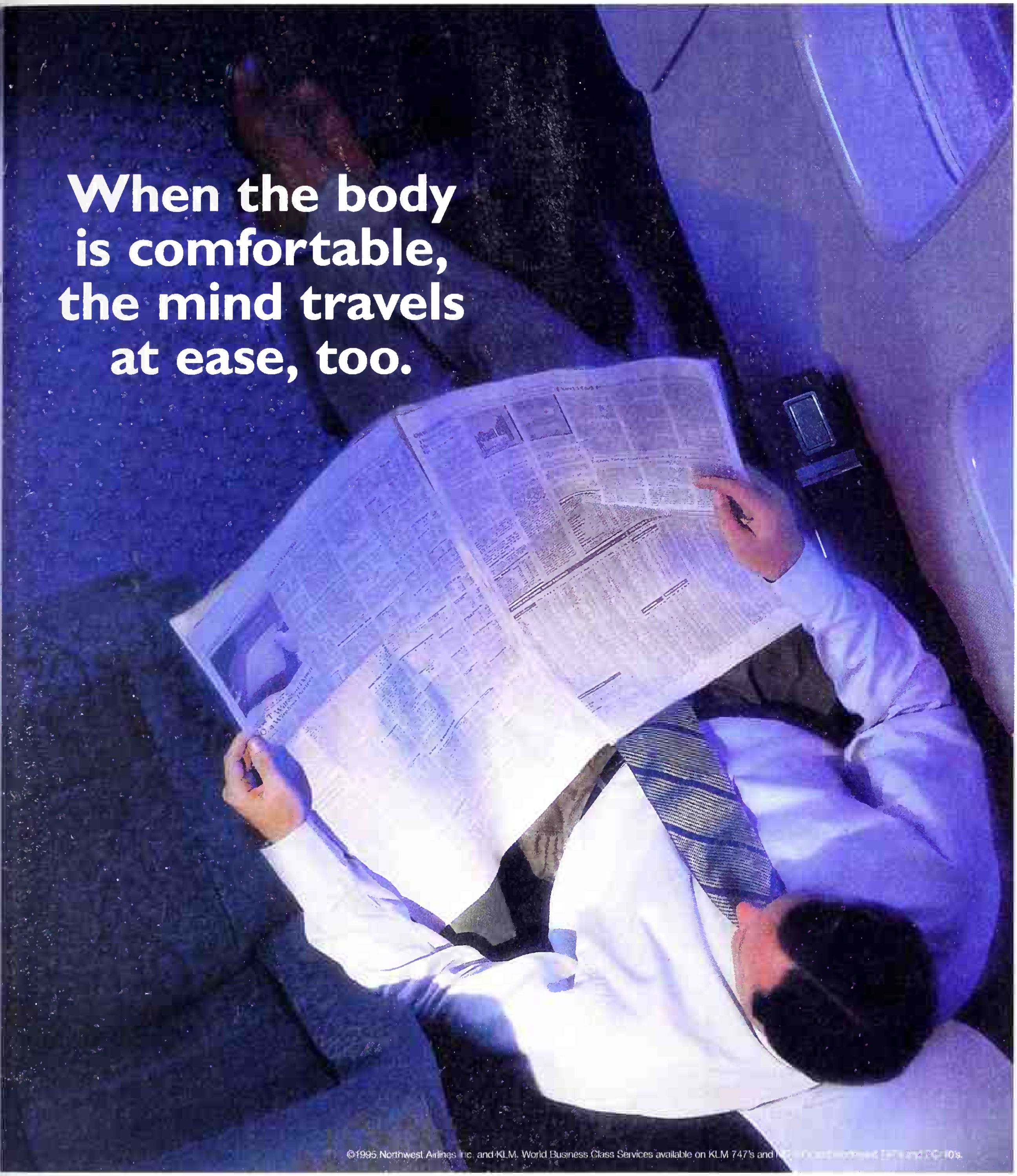
DATA: HANIGAN CONSULTING GROUP



*REPRESENTATIVE SAMPLE OF 100 LARGE COMPA
ACADEMIC DEGREES FROM BACHELORS TO DOCTO

FOOTNOTES Sales of sports trading cards, 1993: **$706 million**; 1994 (baseball strike, hockey lockout): **$658 million**

FROM UPPER RIGHT: CARTOON BY SACK/STAR TRIBUNE/MINNEAPOLIS; PHOTOGRAPH BY JOHN S. ABBOTT; GRAPHIC BY ROB DOYLE/BW; ILLUSTRATION BY PETER SIS


When the body is comfortable, the mind travels at ease, too.

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Northwest recycles over 5000 [illegible] ♻

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than you p

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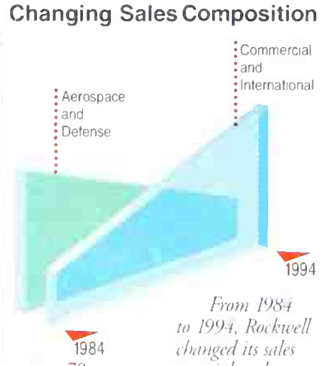
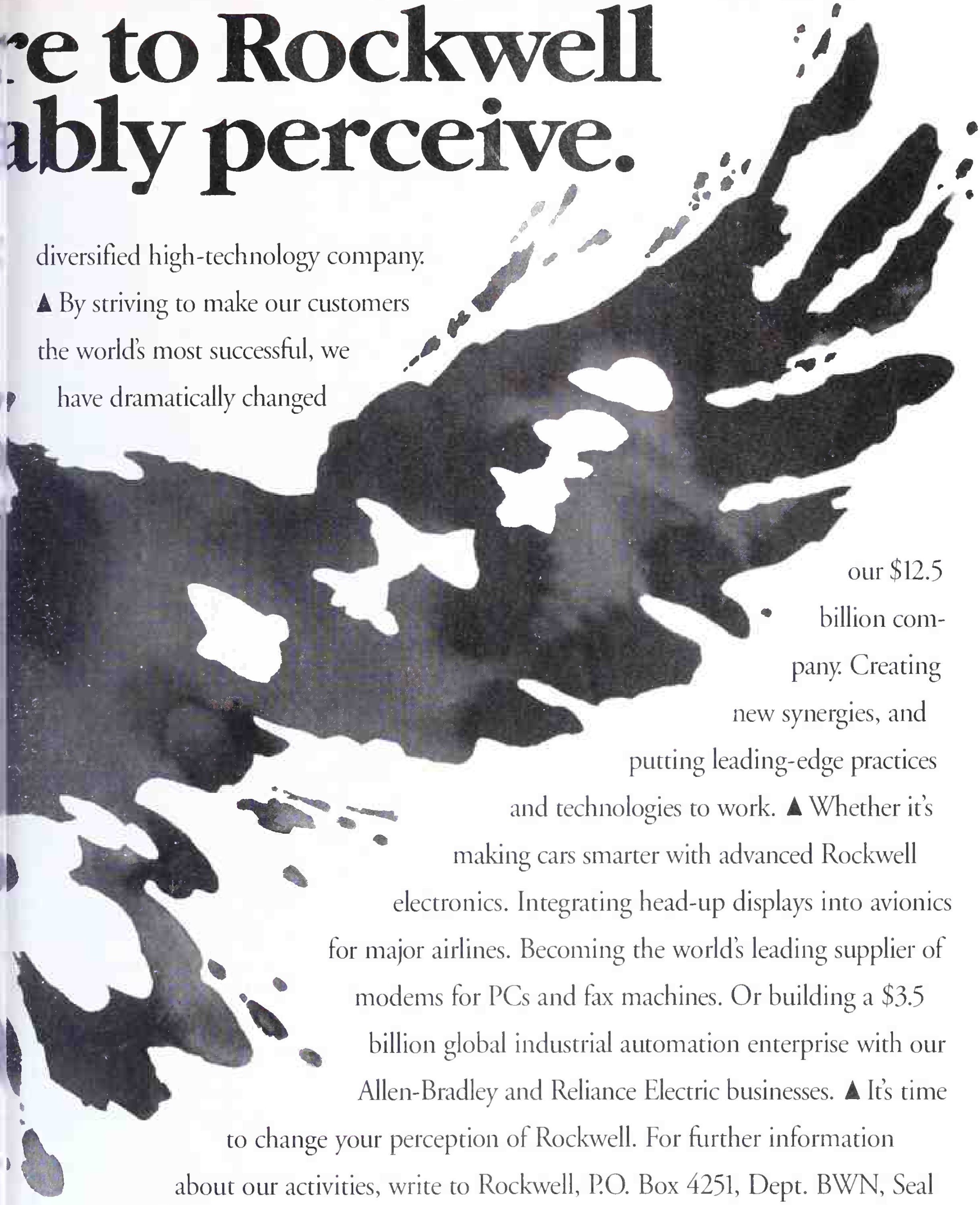


From 1984 to 1994, Rockwell changed its sales mix to 70 percent commercial and international by leveraging new technologies and products, unique synergies, and global opportunities to aggressively serve its customers.

Automation ▲ Avionics ▲ Telecommunications ▲ Defense Electro



re to Rockwell
ably perceive.

diversified high-technology company. ▲ By striving to make our customers the world's most successful, we have dramatically changed our $12.5 billion company. Creating new synergies, and putting leading-edge practices and technologies to work. ▲ Whether it's making cars smarter with advanced Rockwell electronics. Integrating head-up displays into avionics for major airlines. Becoming the world's leading supplier of modems for PCs and fax machines. Or building a $3.5 billion global industrial automation enterprise with our Allen-Bradley and Reliance Electric businesses. ▲ It's time to change your perception of Rockwell. For further information about our activities, write to Rockwell, P.O. Box 4251, Dept. BWN, Seal Beach, CA 90740-8251. You'll see a lot more in us than you ever imagined.

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Readers Report

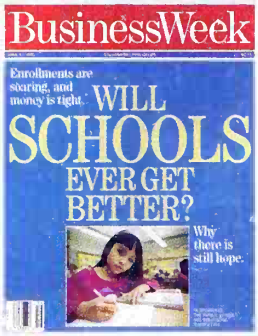
REFORM AND THE THREE Rs

The real problem with public education is bad management ("Will Schools ever get better?" Cover Story, Apr. 17). When people invest in stocks, mutual funds, and startups, what they are investing in is management. If public school districts were traded on the New York Stock Exchange, they would soon go broke.

The educational establishment simply does not have the stomach or the personality types to change. Current leadership wants the status quo.

If we put corporate types in as superintendents and principals and rotated all current teachers and managers to the private sector for a year once every five years, we would shortly have a far different look about our schools.

Edmund G. Gildersleeve
Oakland, Calif.


BusinessWeek
Enrollments are soaring, and money is tight.
WILL SCHOOLS EVER GET BETTER?
Why there is still hope.

I do not agree with the comment in your editorial that teachers have gained "a compensation package that is the envy of most working people: 10-week vacations and a gold-plated package of health and pension benefits that disappeared in the private sector long ago."

All the teachers I know have masters degrees or more and continually take refresher courses during "summer vacations." Furthermore, they spend their evenings grading papers, unlike professionals fortunate enough to observe office hours. For my money, teachers in public schools are worth twice what they get.

P. Douglas Fowler
Statesboro, Ga.

In my 23 years as a public-school teacher, I have seen a parade of ideas for improving schools. Whether they were good or not made little difference, because none of them addressed the structure of public educ
A school system is a mon
What's more, it is a protected mo
ly. Customers must shop at our
no matter what we put on the sh
Public education will not get bett
til vouchers let our customers
somewhere else if need be.

Tom Sh
Bayville,

Another lesson to be learned by
lic educators from U.S. corporati
"pay for performance." I firmly b
that teachers would have an ince
to develop better students if the
ers received only a percentage of
salary [automatically]. The rem
would be paid on a graduated
depending on how far their stu
exceeded a minimum score on
dardized state or f
tests.
Exceptional g
achieved by their
dents would resu
commissions for te
that exceeded 10
salary. However,
would be no commi
for teachers whose
dents did not achi
specified minimum
Let's bring the
world to academia.

Robert Winter
Croton-on-Hudson,

You say public schools are "frit
away vast sums. . . ." Before rea
such a conclusion, it makes sen
look at just what sums are being
for what purposes.
Using figures cited in the ar
one can compare the federal, state
local education spending for youn
5 to 18 with the federal spendin
Medicare and Social Security,
goes to the 12% of the population
is age 65 and over.
The bottom line is that s
spending is $6,675 per child,
Medicare-Social Security outlays
$15,387 per recipient. Could the

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something wrong with this picture?

Jane Sjogren
Associate Professor
Simmons College
Boston

DAVID CARD'S SIDE OF THE MINIMUM-WAGE BROUHAHA

Paul Craig Roberts writes, in "A minimum-wage study with minimum credibility" (Economic Viewpoint, Apr. 24): "Michigan State University Professor David Neumark and Federal Reserve economist William Wascher acquired the actual payroll data from fast-food establishments in New Jersey and Pennsylvania. The payroll data show that fast-food employment did not increase in New Jersey after the minimum wage increase. [Instead, it declined 4.8% relative to the control group in neighboring Pennsylvania.]"

On the contrary, Neumark and Wascher did not acquire the payroll data. Rather, the data were acquired from a selected group of franchisees by the Employment Policy Institute (EPI), an organization funded by business contributions and opposed to minimum-wage increases. EPI then provided data to Neumark and Wascher.

The data set used in my study with Alan Krueger of the effect of the New Jersey minimum wage includes 410 restaurants from four fast-food chains: Burger King, KFC, Roy Rogers, and Wendy's. Our sample includes both company-owned and franchise outlets. The payroll data set used by Neumark and Wascher includes 71 restaurants in the Burger King and Wendy's chains, all owned by franchisees. Neumark and Wascher have not shown that results based on "the actual payroll data" differ from the results reported in our study. They have not even analyzed data for the same restaurants, or the same restaurant chains, or for stores operated by the same groups of owners.

David Card
Professor of Economics
Princeton University
Princeton, N.J.

Editor's Note: New Jersey's experience is hotly debated in the economic profession. The study by Card and Krueger was based on a telephone survey of outlets of four fast-food restaurant chains. It concluded that employment in New Jersey outlets rose after the state raised the minimum wage in 1992, while employment fell in neighboring Pennsylvania, where the minimum wage did not change. Neumark and Wascher, using payroll data from two chains, found that employment rose in New Jersey but rose even faster in Pennsylvania. Neumark says he verified by phone that the data provided by EPI were complete. He says his study, still collecting data, has compared results only with the similar portion of Card's restaurants.

CORRECTIONS & CLARIFICATIONS

"From the microbrewers who brought you Bud, Coors..." (Marketing, Apr. 24) erred in stating that Anheuser-Busch Cos. and Miller Brewing Co. have spent decades acquiring smaller rivals. Until their recent microbrewery deals, neither company had made significant acquisitions of rival brewers.

In Inside Wall Street (May 8), a graphic was misplaced and mislabeled. The chart tracking the stock of Teva should have accompanied the item on Specialty Equipment, whose path the graphic really reflects.

Roberts claims that the data used in the Card-Krueger study of minimum wages are obviously flawed and that the publication of this paper casts serious doubts on Card's competence as an economist as well as on the standards at *The American Economic Review*.

Roberts dramatically overstates the flaws. He notes that the data contain large variations hard to explain. In economics, data often look like this—and well-understood ways exist to assess the consequences of such variation for empirical results. One of us did a statistical re-analysis of the Card-Krueger data and found the basic findings unaffected by this variation. The study by Neumark and Wascher cited by Roberts performs a service by collecting additional data on this point. That their findings contradict Card's and Krueger's is evidence of healthy discourse on a difficult empirical problem—not, as Roberts asserts, evidence of incompetence.

Anyone who follows economics literature knows that Card is among the most careful and conscientious people doing empirical work in labor economics. Roberts' attempt to portray Card otherwise is a blatant effort to intimidate dissenting voices.

Jim Rebitzer
Sloan School, MIT
Cambridge, Mass.

Lowell Taylor
Heinz School
Carnegie Mellon University
Pittsburgh

Paul Craig Roberts says that
gue that an increase in the mi
wage may raise employment
"the law of demand, the corne
of economic science." Nonsense!
Economists have long know
under the widespread imperfect
tition in our economy, raising th
imum wage can lower the critica
ginal or incremental cost of
additional workers. Where ther
effective minimum wage, hiring
workers may require offering
wages not only to new worke
also to existing ones, making th
tional costs prohibitive. If the
mum wage is set high enough
effective, increased hiring may
an incremental cost equal to on
wages paid to the additional wo
since existing workers have al
had their wages raised. Hence, c
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when the minimum wage is rais
The study was properly recei
ingenious and outstanding. But
only one of a number of recent s
showing that the minimum wa
not significantly reduce employ
Roberts' attacks on the America
nomic Assn. and on Card, who
receive the AEA's highest award
economist under 40, are nasty a
justified. I have served on the co
tees that make the awards; th
not given to those who do s
work.

Robert E
Department of Econ
Northwestern Univ
Evansto

Editor's note: Eisner is a past
dent of the American Economic

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A MOMENT ON THE EARTH
The Coming Age of Environmental Optimism
By Gregg Easterbrook
Viking • 745pp • $27.95

SHOULD THE GREENS TAKE A BREATHER?

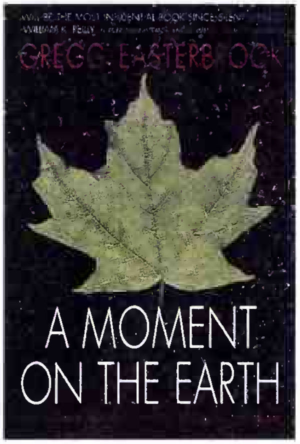
Chicken Little may be part of an endangered species. With the recent 25th anniversary of Earth Day came the release of a spate of books on the environment—including several suggesting that the apocalypse may not be coming after all. Perhaps the best of these revisionist efforts is Gregg Easterbrook's *A Moment on the Earth*, a refreshing, evenhanded appraisal of the state of the planet.

Once-damaged forests, the author reports, are rebounding, the number of bird species has not plummeted as predicted, and even smog has been dissipating in most U.S. cities. Yesterday's toxic-waste sites often teem with wildlife, he says, while "degradation of pristine rivers by new water pollution has essentially ended in the U.S." After expanding on several such cases, "ecorealist" Easterbrook sends a stern warning that green groups risk losing whatever political clout they still have in Washington by sounding the alarm long after it has been shown that the sky isn't falling. "Accurate understanding of the actual state of the environment will serve the Earth better than expressions of panic," he contends.

That's no doubt true. But demands for further investigation of environmental damage can be employed to delay needed regulation. Moreover, Easterbrook expends so much effort on a bullish evaluation of the environment that when he then calls for strict enforcement of existing laws to protect flora and fauna, you wonder what he's talking about.

Still, Easterbrook is right when he argues that man-made predations should be understood in a broader context. Inviting readers to take the long view, he insists that the harm done "to nature by nature" has been far greater than any damage done by humans. For example, he says estimates of cataclysmic asteroid and comet collisions with the earth show that the planet "has been battered a thousand times by hammer blows as strong as the one that wiped out the dinosaurs"—yet the earth survives.

In 23 painstakingly reported chapters on problems ranging from acid rain to water pollution, Easterbrook demonstrates his skills. Accounts of the behind-the-scenes politics of environmental battles, such as those over the Northern spotted owl and Superfund sites, help make a case that environmentalists have overplayed their hand.



Consider the hysteria over the demise of the nation's forests. In the mid-18th century, he reports, 35% of Connecticut, Massachusetts, and Vermont was wooded. Today, as a result of forest management, the figure is 59%. Easterbrook also revisits the dire predictions of Rachel Carson's 1962 environmental wake-up call, *Silent Spring*. Carson had forecast that as many as 40 bird species could meet extinction if the use of pesticides and other chemicals were not curbed. Of the 40, Easterbrook finds 19 with stable populations, 14 increasing in number, and 7 declining in population.

Some of that success is attributable to changes prompted by Carson's book. Yet Easterbrook faults environmentalists for downplaying the achievements of government rules. His portrait of the green movement reveals why it clings to a doomsday script. On a visit to California, for instance, he documents the existence of many more spotted owls than environmental groups admit. Later, environmentalists privately concede the exaggeration but justify their numbers on the grounds that "a valid goal, old-growth forest preservation, is ser

Easterbrook also has barbs for ronmentalists who care more plants and animals than humans. I th Third World, he notes, green gr agitate for forest and species prote but don't pay nearly as much atte to such problems as pollution-ca respiratory illnesses that kill millio children annually.

Many of these points are on ta But Easterbrook's vision of the f and his nostrums are marked by e sive optimism and exaggeration. H clares, for instance, that the We world is "on the verge of the gre ecological renewal that humankind known." And he calls for "people, chines, and nature" to work tog toward a "New Nature"—a v where advances in genetic engine could be used to stop human viole

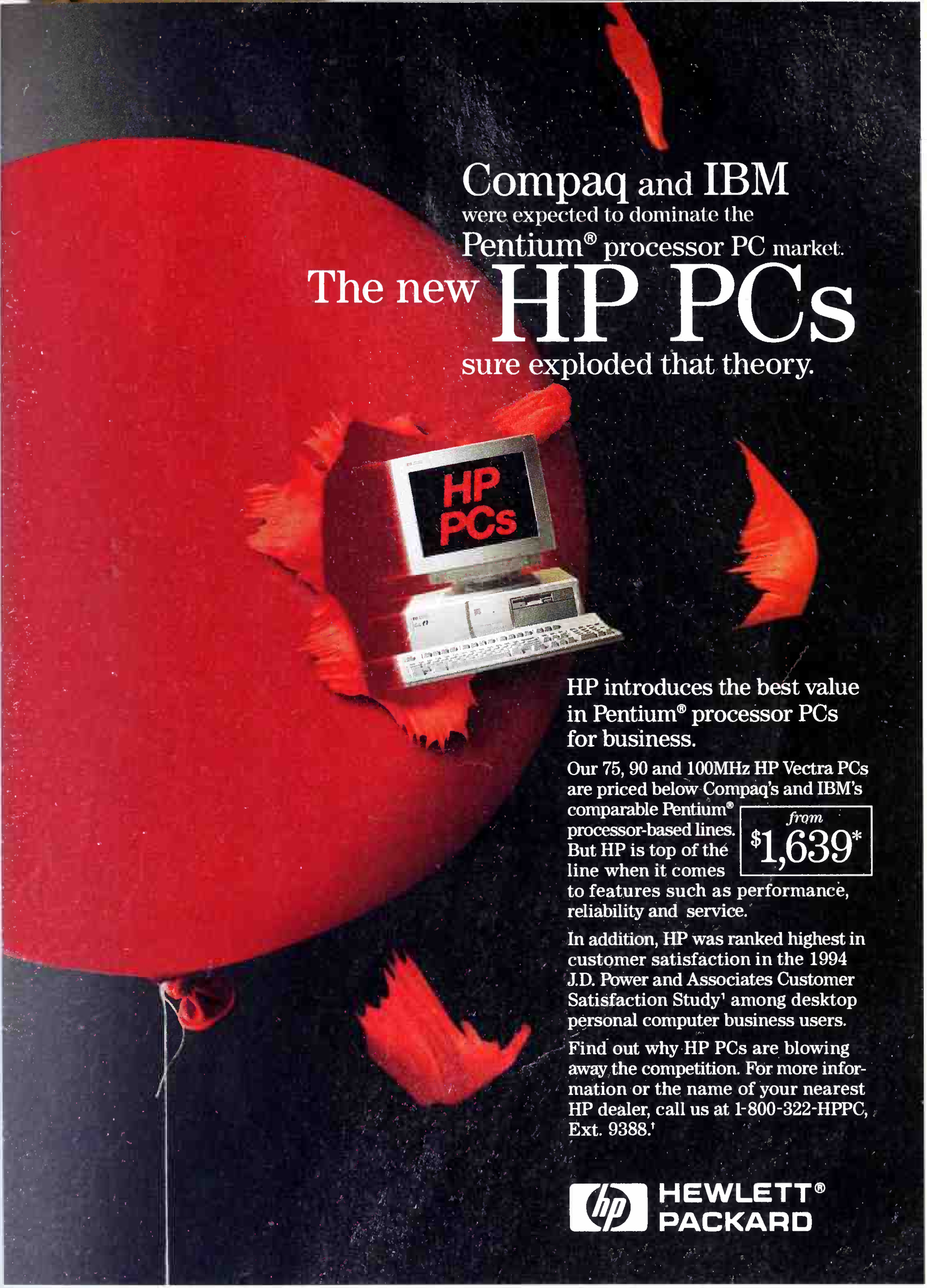
Most troubling are Easterbrook' supported inferences. On global w ing, for example, he s that "reasoned disc leads to the concl that reforms are jus but also that end-of world rhetoric be dispensed with." following a lengthy di sion downplaying the ger of global warmi Easterbrook goes so f to assert that gra warming would act benefit worldwide ag ture—he then change rection and concl that "any reasonable icy that reduces the odds of cli change is more than worth the pr After such an argument, the re may be more likely to draw the o site conclusion.

Coming from a self-proclaimed " ical liberal," such analysis could pr windfall for conservatives determ to dismantle environmental progr If, however, the book is used as Ea brook intended—to improve protec by basing them not on emotional peals but on scientific investigati this book will help put the U.S. path toward more rational environ tal protection.

BY MARY BETH RE

Regan covers environmental d opments from Washington.

THE AUTHOR SAYS ENVIRONMENTALISTS WOULD GET FURTHER BY AVOIDING DOOMSDAY RHETORI



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BY STEPHEN H. WILDSTROM

TONY PRINTERS FOR THE HOME

Not long ago, home printing meant lousy printing, whether it was for work, school, or play. Most printers for the home were noisy dot-matrix models that jammed frequently and turned out fuzzy print. You needed special paper that had ragged edges after you separated the sheets along the perforations and stripped off the little holes on the side.

What a difference a little technology makes. The latest crop of inexpensive ink-jet printers take advantage of precision designs and high-tech inks to let you print a business letter or a school report with quality that can rival an office laser printer. Better yet, virtually all of today's ink-jet printers produce vibrant color. You can add just a splash to brighten a letterhead or use the full palette for charts on plain paper and overhead-projector slides on plastic film.

Colorful Ink-jets

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BJC-70 *(shown)*	$359
BJC-600e	469
HEWLETT-PACKARD CO. **800 752-0900**	
DESKJET 660C	499

The power of home printing these days is demonstrated by a trio of new ink-jet printers. The BJC-600e from Canon Computer Systems Inc. is a typical high-quality entry. Although you can get a color printer for less than this model's $469 street price, you would have to settle for slower, and probably poorer quality, printing. The BJC-600e can turn out up to four pages per minute in black only, though the best-quality printing is slower. A full-color draft page takes about a minute. Paper handling, much improved from earlier ink-jets, lets the Canon unit hold up to 100 sheets of paper or 15 envelopes.

Cool features extend beyond the printer itself. One is software that helps you get more out of your machine. The BJC-600e comes with two programs, Color Advisor and Stationery Store. Color Advisor takes documents from popular Windows word processors, spreadsheets, and presentation graphics programs and suggests schemes to make effective use of color. The Stationery Store program provides templates to create such things as letterheads, brochures, and greeting cards. After making your card, your printer can outline a custom-designed envelope on regular paper. You then cut along the dotted lines and paste.

The BJC-600e is getting some serious competition from Hewlett-Packard Co.'s slightly more expensive DeskJet 660C. The DeskJet (available for the Mac as the DeskWriter 660C) lacks the Canon machine's software touches, but it compensates with splendid color printing. Compared with what I had regarded as the ink-jet color-quality champ, the Epson Stylus Color (BW—Sept. 26), the DeskJet is much faster, at least equal in color quality, and far superior in text printing. The best color requires special glossy paper and slows the printing to three minutes per page, but the near-photographic results are worth the wait.

TOPPLING ENVELOPES. If you want a printer that can work on your desk and on the road, consider the Canon BJC-70. It weighs only three pounds and is small enough to be stuffed into a suitcase, though the absence of battery power limits its portability a bit. The main trade-off for its compactness is in paper handling: It holds just 30 sheets. While Canon claims it can take five envelopes, I found it difficult to do more than one at a time because of the tendency for the envelopes to topple while waiting their turn. If your printing volume is fairly light, you'll probably be happy with the BJC-70 as your only printer.

While HP and Canon dominate the market for ink-jet printers, IBM spin-off Lexmark International is coming on strong. The company will shortly announce a new model that offers many of the features of the BJC-600e and the new DeskJet and is priced below its competitors. If you need a printer now, you're sure to find all the features you need at a reasonable cost. But if you can wait a while, you will probably end up saving some money. I'll take a look at the Lexmark as soon as I can.

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to control the show from a
lectern is awkward. Remot
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and an oblong device with
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controls the cursor from up
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practice to control the Rem
ePoint. But once you get th
hang of it, using the point
is a lot easier than fumbli
with a mouse or trackball
while giving a presentatio

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stops to make its August t
get for shipping Windows
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all the kinks out in time. S
they're planning to offer re
lar quarterly updates for th
operating system, includin
bug fixes and support for n
printers, video cards, and
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haven't been worked out, b
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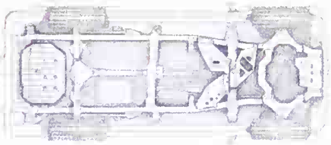

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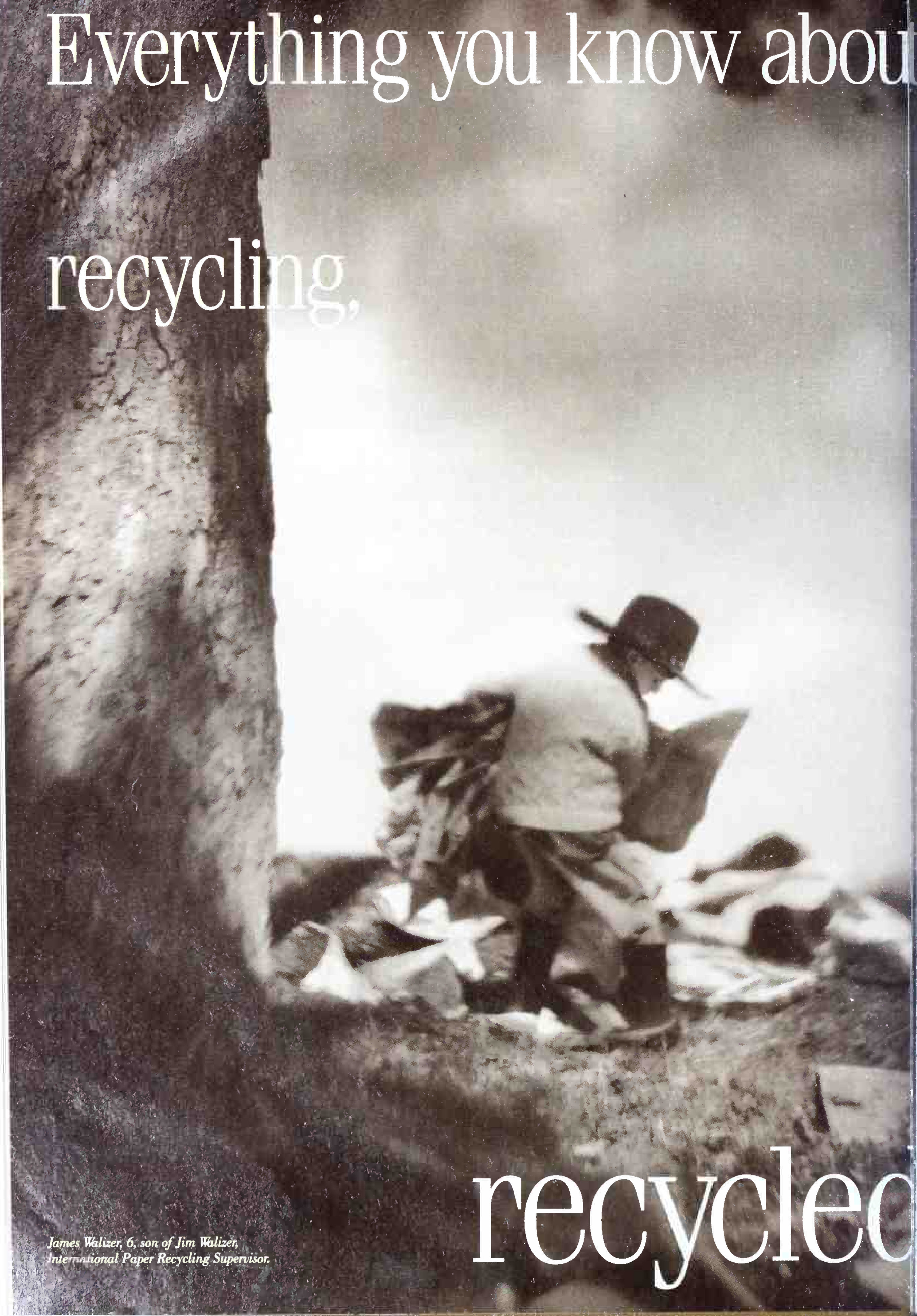
Everything you know about
recycling,
recycled

*James Walizer, 6, son of Jim Walizer,
International Paper Recycling Supervisor.*

AT ARE THE ISSUES?

'ter everybody's finished ing this magazine, it will ably end up in a recycling 'rom there, it'll be recovered urned into new paper.

e say this with reasonable ance because America has great progress in recycling. recovering over 40% of the r we use, making the U.S. f the best recyclers in the l. Soon we expect to reach which is generally regarded near the practical limit se about half the paper we 't recoverable. For instance, of paper gets stored in the of books and documents, ome of it also gets contami- beyond recovery.

the issue now isn't whether ycle, but how best to use ered paper.

e thought: make all new r out of 100% recycled . Idealistic but not very ical. Why? First is the ons demand (over 88 mil- ons per year) for paper in untry. This demand can't t with recovered material no matter how good we get ycling.

condly, when paper is led, its fiber weakens, tely making it unusable.

stly, sometimes recovered isn't of high enough quality ke better grades of paper. recycled material must be ned with different amounts rgin" fiber (raw material d from harvested trees).

ere does all this leave us? ng a balance between the nd for paper products ing virgin fiber, and the best using recovered paper.

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BY ROBERT KUTTNER

DUELING TAX PLANS: ONE ADDS UP, THE OTHER DOESN'T

VOODOO: Armey's idea of a flat tax looks simple, but his figures are wacky. The Domenici-Nunn plan to tax outlays merits serious consideration

House Majority Leader Richard K. Armey's proposal for a flat-rate income tax has gotten more publicity than it deserves. The Texas congressman advertises his plan as simplifying the system, reducing taxes, and stimulating savings, investment, and growth. Quite apart from whether this is a wise approach, Armey's numbers don't work. But there's a different plan, offering less hype and more careful analysis, that merits serious attention: the USA Tax unveiled last week by Senators Pete V. Domenici (R-N. M.) and Sam Nunn (D-Ga.). Superficially, the plans have similar goals, but their treatment of personal income could hardly be more different.

Armey proposes a flat 17% rate, with no deductions. It would leave moderate incomes untaxed, thanks to an immense personal exemption—$36,800 for a family of four. Thus, a family of median income (about $38,000) would pay almost no tax, and even a family with $50,000 income would pay less than 6%. So who would pay taxes? Armey projects that virtually every income group would pay less—which is, of course, too good to be true. The Treasury Dept. projects that, with a 17% flat rate, the plan would increase the deficit by at least $186 billion a year. To be revenue-neutral, Armey's plan would need a rate of 23% or 24%—meaning tax increases for all but the bottom and the top.

KEEP IT PROGRESSIVE. Beyond the dubious arithmetic, Armey's concept is flawed. It confuses tax simplicity and tax equity. The simple part of calculating taxes is multiplying the taxable income by the applicable rate. The hard part is calculating taxable income. Deciding which deductions are legitimate is complex, because life is complex. If we want to go ahead and discard all deductions—even mortgage interest, health care, charitable contributions, casualty losses—for the sake of simplicity, we can still keep graduated rates. A better approach would be to close the truly uneconomic tax preferences that still litter the tax code, and to lower rates while retaining progressivity.

In contrast to the Armey plan, Senators Domenici and Nunn's USA Tax—that stands for unlimited savings allowance—is extremely complex and retains graduated rates, with a top rate of 40%. USA Tax is a variation on an old idea—"progressive expenditure taxation." Domenici-Nunn would tax only spending. All income set aside as savings w be tax-exempt. Money withdrawn from ings and spent, however, would be taxe current consumption. The rationale is fold: It is fairer to tax people on what consume than on what they earn, and tax break on savings would sharply incr savings rates.

The Armey and Domenici-Nunn bills similar in one respect: Both would rep the current corporate income tax with tax on companies' gross profits, allowing ductions for purchases of inputs and per ting immediate write-offs of all capital in ments, thus doing away with deprecia schedules. Armey would allow deductio wages; Domenici-Nunn would not, but w allow a credit against payroll taxes. Alth no sponsor emphasizes it, both approache business are a form of value-added tax (

MORE RECORDS. Is the Domenici-Nunn good tax policy? It has two major def First, it is complex. Taxpayers would ne new set of records and tax schedules to port flows into and out of savings. VAT- business taxes are costly to administer especially complex in their treatment of i national business. Before embracing a we should debate its costs and benefits di ly and not back into it as a means of see to promote savings.

Second, like the Armey bill, the Dome Nunn plan is highly regressive in the hig come range, where most savings occur. household with $4 million income consume million, taxes are owed only on that consu tion. The nominal top rate in the USA plan is 40%, but the tax in this case woul $400,000—an effective rate of 10%. If taxe the very rich go down, taxes on others go up. The original advocates of this appr such as the British economist Nicholas Ka writing in the 1950s, proposed offsetting regressivity with modest net-wealth taxe steeper estate taxes. But this remedy is where in the Domenici-Nunn bill.

Still, Domenici-Nunn is a serious loo tax policy and not a political gimmick. the work of bipartisan moderates and serves a respectful debate on details. Do ici, now chairman of the Senate Budget mittee, places deficit reduction ahea supply-side fantasy and does not appear t cooking his numbers. That cannot be sa Majority Leader Armey.

RICHARD SCHULTZ

Robert Kuttner is co-editor of The American Prospect and author of The End of Laissez-Faire

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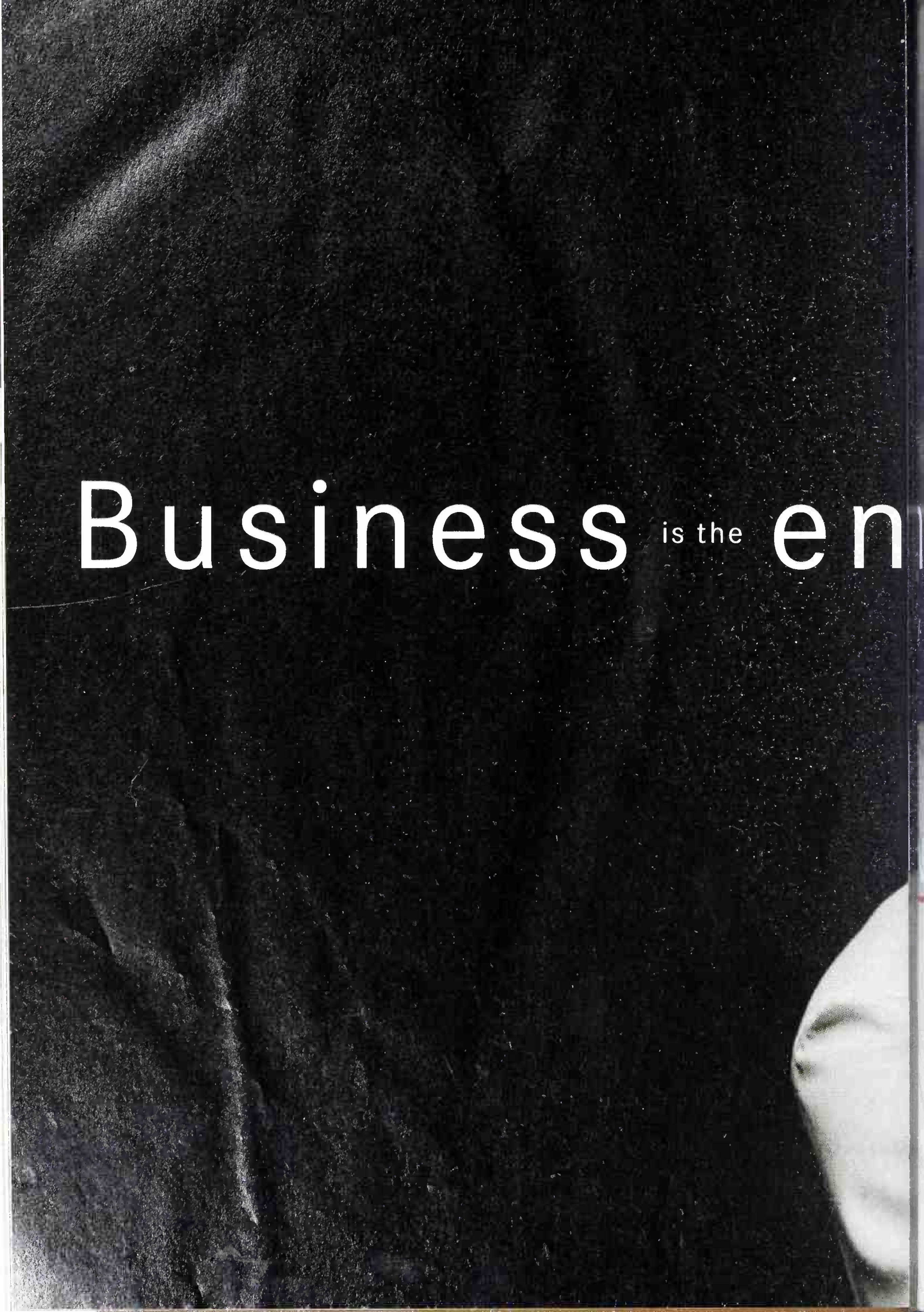

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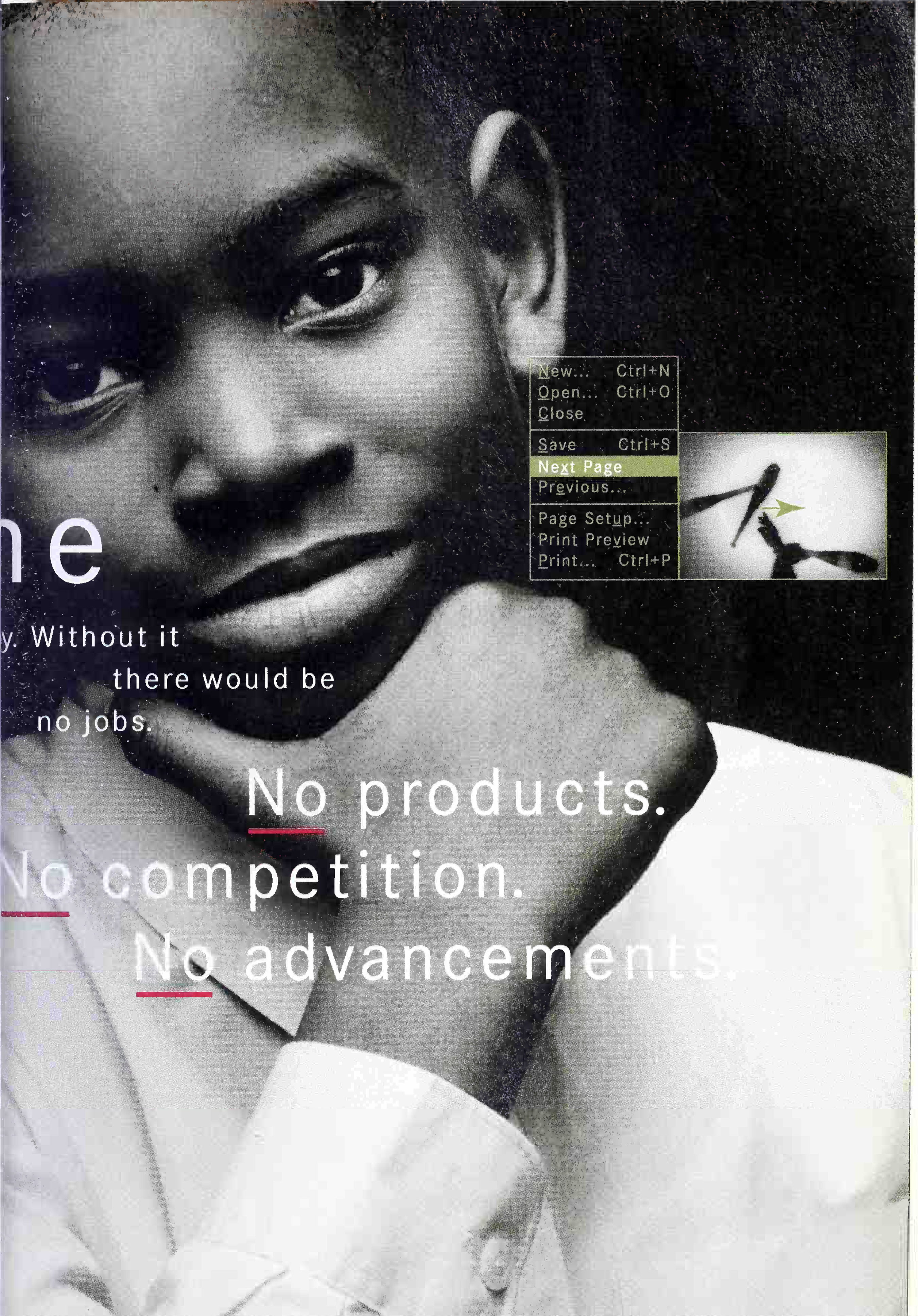
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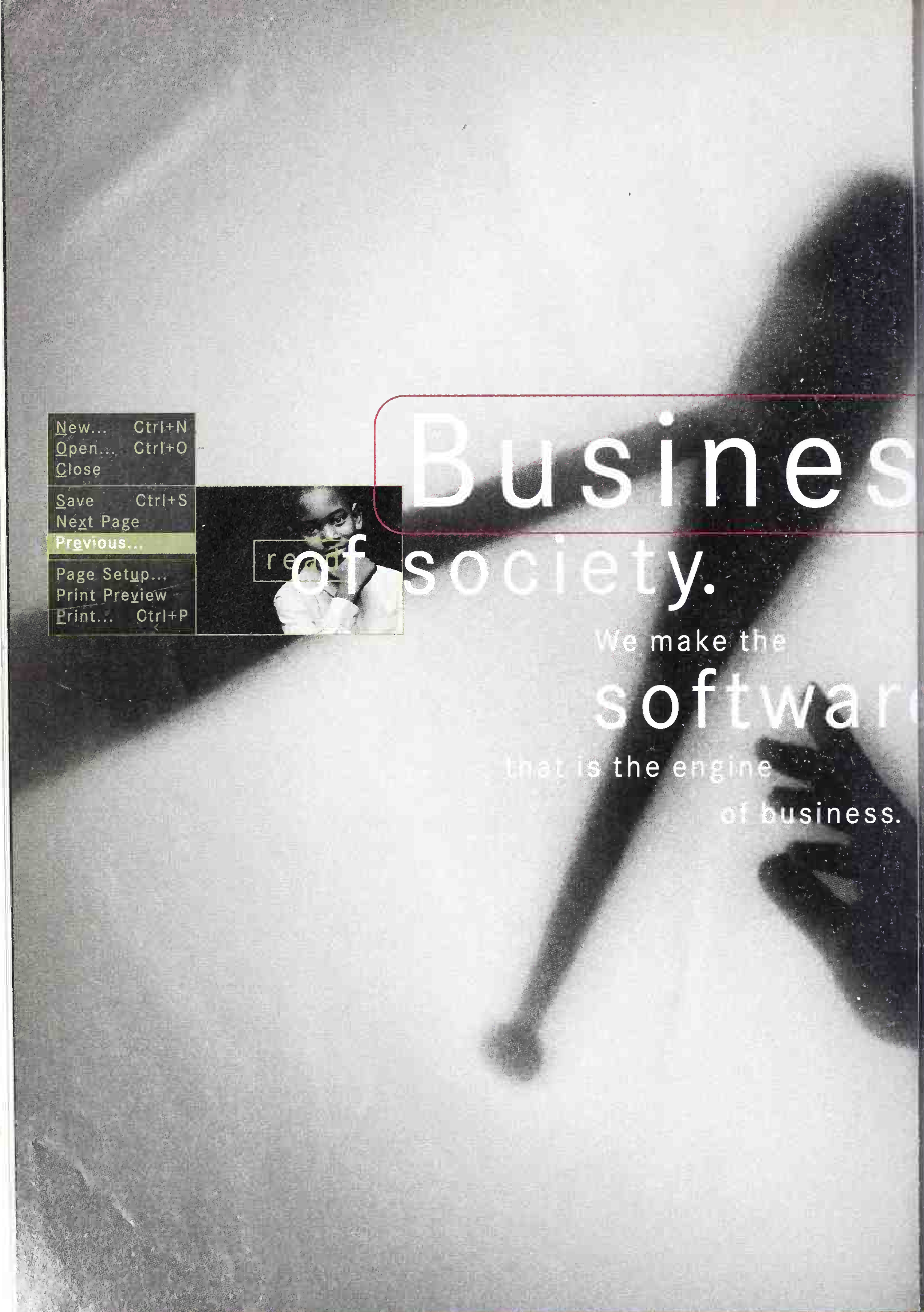
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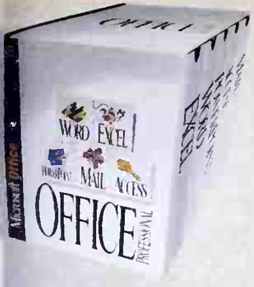

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WHERE DO YOU WANT TO GO TODAY?™

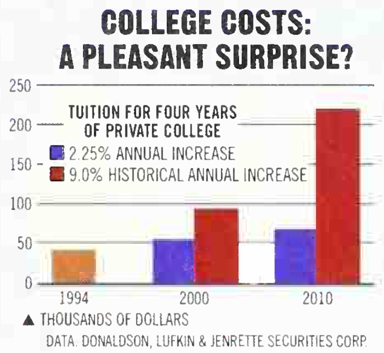
Economic Trends

BY KAREN PENNAR

ARE TUITION HIKES TAKING A HIKE?

Why they may start leveling off

In matters financial, people often believe that past is prologue. College costs are a case in point. For more than a decade, tuition at private and public colleges around the country rose an average of 9% a year—well above both the inflation rate and the growth in household family incomes. At that rate, four years' tuition at a private college in 2010 on average would cost nearly $220,000—so frightening a sum to many parents that they figure they can't possibly sock away enough money to pay for their kids' college education.


COLLEGE COSTS: A PLEASANT SURPRISE?

▲ THOUSANDS OF DOLLARS
DATA: DONALDSON, LUFKIN & JENRETTE SECURITIES CORP.

But there's no basis for believing that costs will continue to grow so rapidly. Indeed, the scary scenarios of unaffordable college bills will prove dead wrong, argues Richard F. Hokenson, economist at Donaldson, Lufkin & Jenrette Securities Corp. Demographic shifts will pull the growth rate in annual tuition costs way down—close to 2.25% over the next 15 years or so, he says. The number of 18- and 19-year-olds in the population, contracted sharply from 1980 to 1993 and reached a low of 6.9 million in 1992. Colleges raised tuition to prop up revenues. Now, the demographics are reversing: The number of 18- and 19-year-olds is growing and should hit its next peak in 2010, when there will be 9.26 million of them—a 33% increase in the eligible college population.

Economies of scale will work to hold down tuition increases. As enrollments climb, so will tuition revenues—but per-person tuition rates will grow at a markedly slower pace. "The cost of adding an extra student to a classroom which already has five open seats is minimal compared to the extra revenue received from an additional full-time tuition," says Hokenson.

If Hokenson is right, the tuition bill for four years of college at a private institution will reach about $66,000 in the year 2010—welcome news at a time when a college education is crucial for future earning power.

THE VALUE OF FAMILY VALUES

They could bring fatter paychecks

It's difficult to achieve a balance between work and family, as millions of stressed-out Americans can attest. Alas, psychologists and sociologists have suggested that people who value family may pay a price in lower earnings. Now, a study argues the reverse—that individuals who believe it is important to have a good family life in fact earn higher wages than those who don't place the same value on family.

While earlier economic studies did show that wages are higher for married men than for single men, the reasons for this have not been clear. Using longitudinal data, Peter Cappelli and Clint Chadwick of the University of Pennsylvania's Wharton School and Jill M. Constantine of Williams College linked attitudes and earnings.

High school seniors who stated in 1972 that finding "the right person to marry" and having "a good family life" were very important to them 14 years later earned wages 4% to 7% higher than individuals who placed less value on marriage and family, the researchers found. (The study adjusted for other factors such as education levels and work experience that might produce an earnings differential.) The results were true for both men and women, although the number of children a woman had did have a negative effect on her earnings.

HOW JAPAN COULD TAME THE YEN

The Swiss may have some answers

The super-yen has Japanese industry reeling, and there are widespread fears that Japan may soon slide back into recession as manufacturers who are being priced out of export markets cut production. Lower inte rates and easier money would help. Japanese rates are so low—the ce bank rate is now 1%—that it someti seems as though they have nowh lower to go.

Actually, that's not quite true.

The Swiss battled a surging Sw franc in 1978 by pushing short inte rates down to 0% and imposing a charge on foreign investment flows, serve Nancy R. Lazar and Edwar Hyman of ISI Group. The surch made the effective rate negative for eigners. The Swiss also cranked up ey growth. The money supply is b expanded in Japan, say Lazar and man, but the pace of growth rem relatively slow. Interest rates, m while, are "still 1%."

MICROMANAGING FROM THE GRAVE

A gift with very long strings

The father of scientific manageme Frederick W. Taylor, fore changed the way people work by veloping a series of time and mot studies that laid the groundwork mass production. Taylor exercised pr sion and control in own life, too—and yond it. Today, 80 ye after his death, Tay is managing to ex control in a rather usual way.

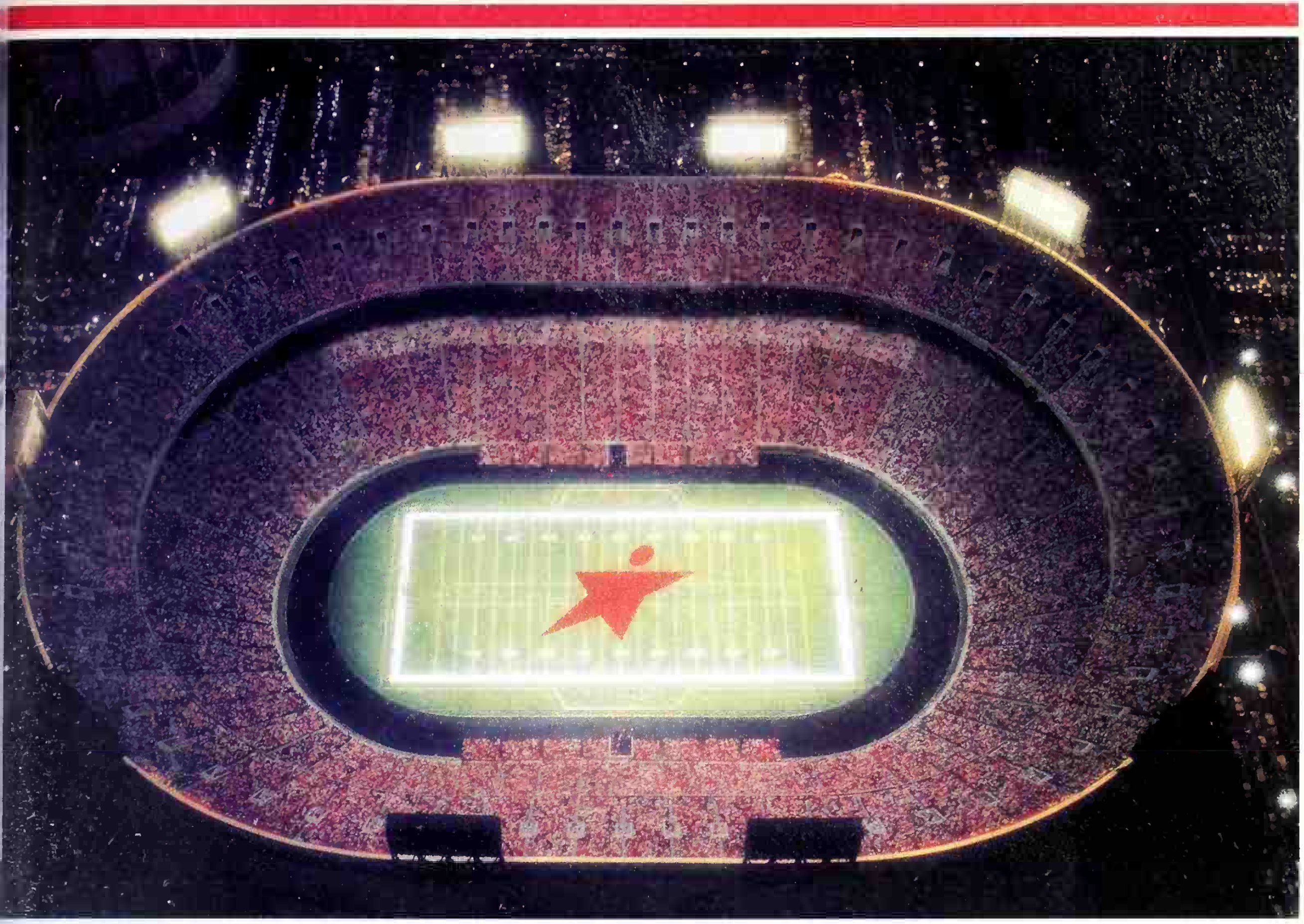
TAYLOR: BIG BEQUEST

Taylor named alma mater, the S vens Institute of Te nology in Hobok N.J., in his will, following the death the last of his heirs, college received ab $10 million from the Taylor estate. T Stevens Institute last year began vesting the bequest in common stoc as Taylor had specified. He also laid an elaborate set of instructions for h the endowment should be managed: D idend income may be withdrawn in c tain increments during specified ti intervals, and there is a sliding sc stipulating how much dividend inco must be reinvested for 180 years.

The payoff, should the college s exist 180 years hence and assuming 5% annual real rate of return on t common stocks: an endowment of m than $8.6 billion.

By Christopher Farr

BY ERIC HOFFMANN/BW, PHOTOGRAPH COURTESY OF STEVENS INSTITUTE OF TECHNOLOGY



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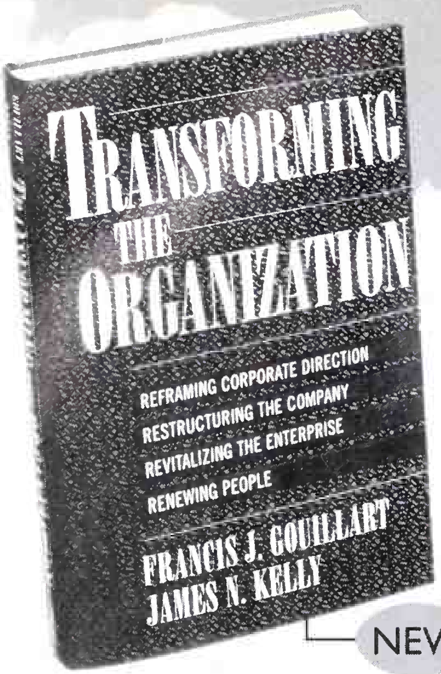
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REFRAMING CORPORATE DIRECTION
RESTRUCTURING THE COMPANY
REVITALIZING THE ENTERPRISE
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— **RAY SMITH, CHAIRMAN AND CEO**
BELL ATLANTIC

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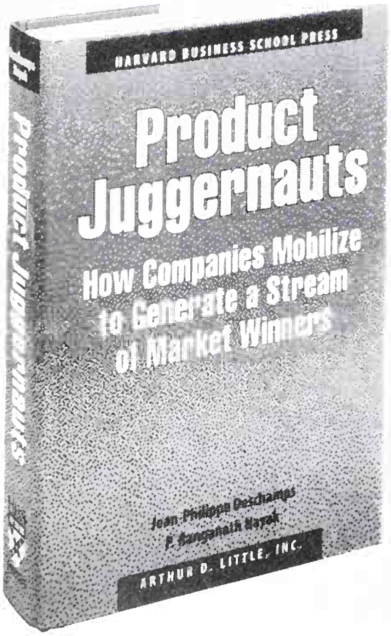
been higher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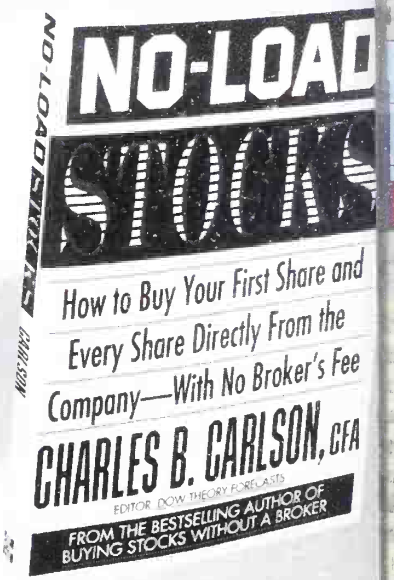
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How to Buy Your First Share and Every Share Directly From the Company—With No Broker's Fee
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AMES C. COOPER & KATHLEEN MADIGAN

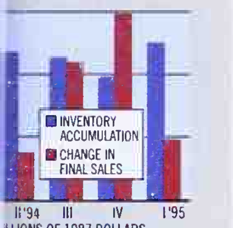
ON'T LET THE SIGNS F A SLOWDOWN FRIGHTEN YOU

U.S. ECONOMY Consider this equation: 2.8 + 3.1 = 6. The new math run k? Or addition using an old Pentium chip? No, the ky arithmetic seems to sum up correctly the eco- ic outlook right now.

e real gross domestic product grew at an annual of 2.8% in the first quarter, down from the 5.1% p of the fourth. The slowdown in final demand more dramatic. Final sales inched up 1.8%, less a third of the sales gain at the end of 1994. Fast- ventory accumulation accounted for the other one entage point of growth last quarter.

t the same time, inflation remained well behaved. GDP fixed-weight price deflator rose at a 3.1% annu- ace in the first quarter, tame enough to ease any in- on anxiety at the Federal Reserve.

NVENTORIES SURGE AS DEMAND SLOWS



LLIONS OF 1987 DOLLARS

A: COMMERCE DEPT., BUSINESS WEEK

That's the place where 2.8 plus 3.1 may well equal 6. At the Fed, 6% is the current Federal funds rate, the interbank lending rate used to control monetary policy. With demand slackening and inflation hardly noticeable, the need for further rate hikes diminishes. The chance that the funds rate will stay at 6% for the rest of the year increased greatly af- the GDP data were released on Apr. 28.

ther signs point to an ongoing slowdown. Consum- are losing interest in homes and cars. Purchasing agers say industrial activity is down a notch, and government's index of leading indicators fell 0.5% in ch, the second drop in a row.

aken together, the data suggest that growth this rter could end up below 1%. But don't despair just Capital spending and exports will pump economic wth back above 2% in the second half.

E APPARENT COLLAPSE in the economy this quar- comes from a correction in inventories. The $63 on gain in stockpiles last quarter was the largest in years. In fact, in three of the last four quarters, in- tory increases have outpaced final sales (chart).

ast quarter, businesses underestimated the pull- k from consumers whose real spending increased at a 1.4% annual rate compared with 5.1% in the th. In addition, the Mexico crisis likely meant com- ies did not ship many goods south.

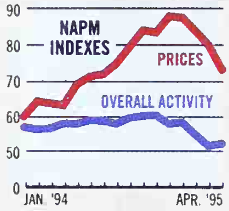
Vith the latest data confirming that softer demand is here to stay, businesses no longer need to stock goods so rapidly. If inventories now are rising at half their pace of the first quarter, the slowdown would subtract more than two percentage points from GDP growth. So if demand rises somewhere between 2% and 3%, real GDP will grow less than 1% this quarter.

THE INDUSTRIAL SECTOR is already adjusting to a softer economy. The National Association of Purchasing Management's index stood at 52% in April. That's only a bit better than March's figure, 51.4%, and both readings are perilously close to the 50% mark that indicates industry is just treading water.

The purchasers reported that output and orders improved. But they also said that delivery times were shorter in April than in recent months and that the index of prices paid fell for the fourth month (chart).

That means production bottlenecks and shortages of goods—usual precursors to higher consumer inflation—are not materializing. More capacity will be freed up this spring as manufacturers fill orders out of inventories instead of from new production. Already, carmakers have announced cuts in their second-quarter production schedules because of weak sales.

PURCHASERS COME IN FOR A SOFT LANDING



▲PERCENT REPORTING INCREASES

DATA: NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT

In fact, a fall in motor-vehicle sales led the 4.7% drop in consumer outlays for durable goods last quarter. And the decline in car sales continued into April. Total retail sales will look better because of a late Easter and the delayed delivery of tax refunds held by the government as it checked for fraud. Will spending head south later on? That's unlikely because household incomes are still growing. Real disposable income advanced at an annual 4.4% rate last quarter, and in March it rose 0.4%.

Higher interest rates, however, have increased the monthly payments on old debts such as adjustable-rate mortgages and credit-card bills. Remember that 1994's holiday shopping spree was financed largely on credit. Those bigger bills are why spending will not rise at the same pace as incomes in 1995. But while slower hiring will limit pay gains, it will not be enough to cause a sharp falloff in consumer spending.

Housing, however, will suffer this year. New single-family home sales bounced back in March—thanks to a dip in mortgage rates—rising 3%, to an annual rate of

ERIC HOFFMANN/BW

577,000. But that followed a 12.5% plunge in February, and sales have been falling since last summer (chart).

Residential construction dropped 6.6% last quarter, but even so, builders ended the period with an overhang of unsold properties. The number of new houses for sale rose to 349,000 in March, a five-year high. Even if builders do not hammer another nail, their inventories of unsold houses could support 7.3 months of home buying at March's selling rate.

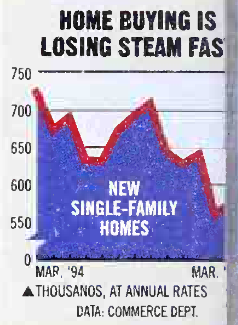
INSTEAD OF consumers propping up growth this year, the economy will have to rely on capital spending and exports. That's where the outlooks are most favorable.

Business investment on new plants and equipment surged at a 19.3% annual rate in the first quarter. Spending on equipment alone shot up by 20.8%. Companies are able to invest in machinery that will improve productivity and lower costs because profits are still growing at a robust clip (page 122).

One good twist in 1995: Businesses will spend more on buildings, reversing the prolonged downtrend in commercial real estate. Nonresidential construction grew 14.1% last quarter, and F. W. Dodge Div./McGraw-Hill Cos. reports that contracts for new commercial buildings rose 7% in March. Total contracts fell 3% because of weaker housing.

U. S. companies will keep adding to capacity even as domestic growth slows because their goods will be in demand overseas. Exports were flat last quarter, d
large part to the fall in shipments to Mexico. But
mand elsewhere will take up the slack. Foreign s
ments will do better in the second half, as growt
Europe and Latin America improves.

Imports, meanwhile, rose 5.9%, causing a deterioration in net exports. The first-quarter deficit widened to $119.7 billion, from $107.1 billion in the fourth quarter, subtracting one percentage point from GDP growth.


HOME BUYING IS LOSING STEAM FAS

▲THOUSANDS, AT ANNUAL RATES
DATA: COMMERCE DEPT.

Many of those imports ended up in warehouses, though. That means that the inventory correction now going on will hurt foreign producers almost as much as U. S. ma
facturers. Growth in imports could slow sharpl
coming months, improving the trade gap. A lower
icit will add to GDP growth—another reason no
worry if the second quarter looks awful.

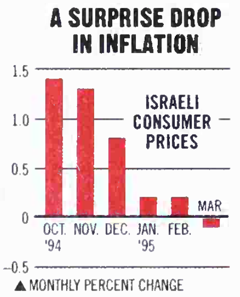
Indeed, the economy rarely slows or expands
straight path. As long as growth does not consiste
deviate from the 2.5% mark considered to be the F
target for noninflationary growth, the crazy curve
the economy won't alarm policymakers. And t
shouldn't scare you, either.

ISRAEL

FIGHTING INFLATION HAS HURT TRADE

After two years of battling rising inflation, the Bank of Israel seems to be winning. But the tight monetary policy has also caused a widening trade deficit and grumbles from manufacturers.

High interest rates, which peaked in February at 18.5%, have pulled inflation down from an onerous 14.5% yearly rate in 1994. In fact, consumer prices unexpectedly fell 0.1% in March (chart). Already, private economists are forecasting that inflation for 1995 will end up below the target of 8% to 11% set by the Bank of Israel and the Finance Ministry. So the central bank is starting to ease. The BOI has cut its discount rate by three percentage points in the past two months, with a 0.8 point cut on Apr. 24.


A SURPRISE DROP IN INFLATION

▲MONTHLY PERCENT CHANGE
DATA. BLOOMBERG FINANCIAL MARKETS

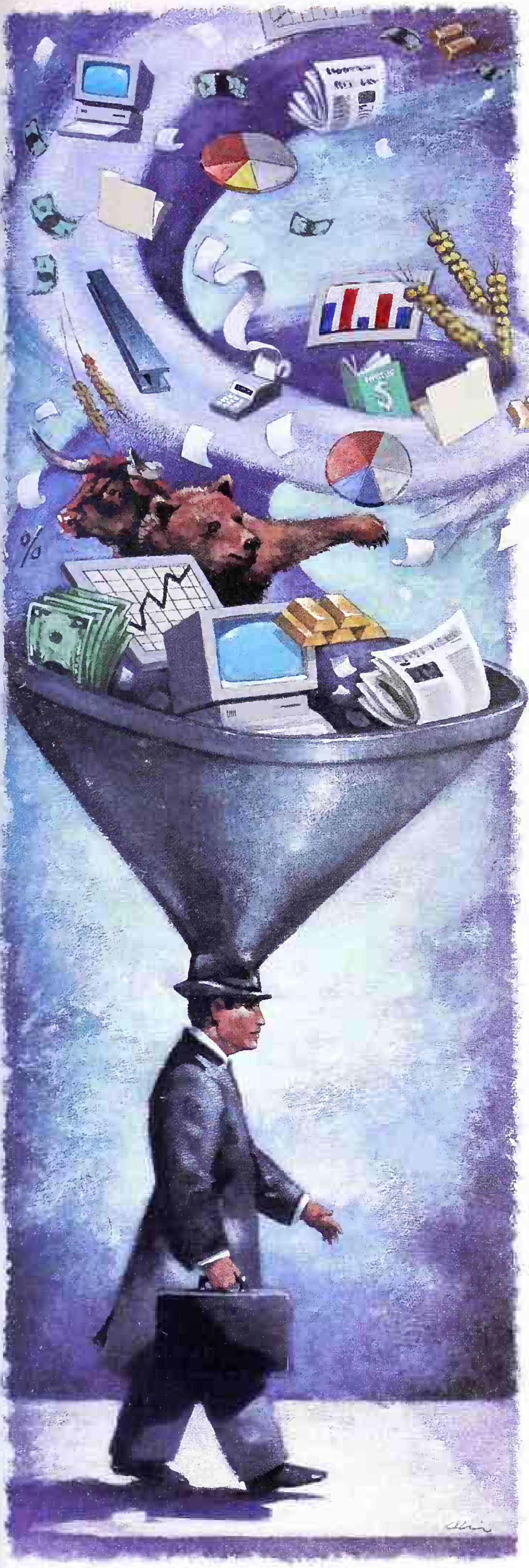
Because of public spending related to the peace process and immigration, monetary restraint has not slowed the economy much. Real gross domestic product grew 7% in 1994 and a projected 3% annual rate in the first quarter. Israel's economic performance index—also called the "S index"—rose 0.9% in February and another 0.5% in March.

Still, the trade sector is in trouble. Rising private demand has brought in imports, but the shekel's exchange rate with the U. S. dollar has hovered around 3 shekels over the past year. That has hurt exports. After posting a $217 million surplus in 1992, the balance
of payments dropped to a $2.8 billion deficit in 1994. And estimates for 1995 call for a furthe
worsening, to $3.5 billion. To reverse that trend, Israel's power
Manufacturers' Assn. and the F
nance Ministry have called for a
further interest rate cut of at least 2%. That action would weaken the shekel, making exports more competitive.

For now, the Bank of Israel and the Finance Ministry are only considering altering the ba
ket of currencies to which the shekel is linked. BOI Governor Jacob A. Frenkel has indicated that he is unwilling to risk high
prices by cutting rates sharply. To him, it is too early to claim victory over so stubborn a foe a
inflation.

With Neal Sandler in Jerusale

ERIC HOFFMANN/BW



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TAKEOVERS

CHRYSLER: THE INSIDE STORY

How Kerkorian's secret talks with the carmaker became a bid with no backers

You would think Kirk Kerkorian would be getting discouraged. The billionaire gaming mogul's $20.5 billion Chrysler Corp. buyout bid lies in tatters. He hasn't been able to line up financing, he hasn't hired an investment banker, and he can't seem to attract any partners to join him and Lee A. Iacocca in the deal.

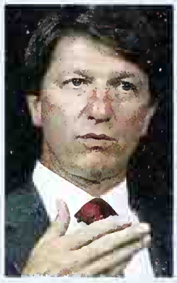
But the 77-year-old investor isn't ready to call it quits. He's wooing bankers and weighing a legal challenge to Chrysler's poison-pill defense, say sources close to Kerkorian's investment company, Tracinda Corp. His likeliest next move will be a proxy fight, the sources say. Its aim: to force a vote on his $55-a-share buyout proposal or elect a new slate of directors that backs the plan. Alex Yemenidjian, Tracinda's key dealmaker (page 42), won't divulge his next step but warns: "It would be a mistake to count us out."

Chrysler, meanwhile, continues to adamantly resist a deal. In a May 3 letter to shareholders, Chairman Robert J. Eaton sought to undermine Kerkorian's proxy plans by continuing to raise the prospect of share repurchases and dividend increases. And Chrysler top execs will be visiting big shareholders before their annual meeting on May 18.

For now, Chrysler appears to have the upper hand. In late April, when lawyers for both sides met in New York to discuss proxy procedures, there were fleeting, delicate overtures for a compromise. But sources in both camps say no further talks are scheduled, and both sides now are so angry that the chances for a settlement any time soon seem slim.

How did this deal come to such a standoff? In an account pieced together by BUSINESS WEEK, the buyout effort's long and torturous history is markable for its miscues on both si Initially, say those close to the de Chrysler's brass liked the idea of a m agement-led buyout, then inexplica turned hostile at the last minute. Chr ler insiders, meanwhile, say executi listened politely but never backed a b out. "We told them we were not intere ed," says one Chrysler source. "They j didn't want to hear it."

Miscues aplenty: Dealmaker Gary Wilson and Kerkorian say Chrysler's brass expressed interest in their plans—then turned inexplicably hostile



OCT., 1994 Gar son, co-chairma Northwest Air, ne with Robert Day of Trust Co. of t West, a Chrysler holder. The two Chrysler's saggir and the idea of the company pri

NOV., 1994 Wilson asks Kirk Ker to put his 36 million shares of C behind the plan. At a party in Lo geles, Wilson also talks up the deal with Lee Iacocca. Both indicate interest. Wilson meets with Gary Valade, Chrysler's CFO, and outlines the deal's structure and financing. Chrysler says it did not encourage the bid.

DEC. 1, 1994 Bowing to pressure Kerkorian, Chrysler announces a dividend increase and a $1 billio buyback. The resulting rise in Ch shares dampens buyout planning

AIRPORT PARLEY. The idea of a Chrys buyout first surfaced in October, t brainchild of Gary Wilson, co-chairm of the company that controls Northw Airlines Inc. After talking with his pal Robert A. Day, head of Trust Co. the West, owner of 7.6 million Chry shares, Wilson decided the company v a juicy takeover target. Its stock w down, and its cash approached $7 billi Wilson decided to propose a manag ment-led effort to take Chrysler priva

Day called up Chrysler's CFO, Gary Valade, and asked him to meet with W son. Valade agreed to a late Novemb parley at a hotel at Detroit Metropolit Airport. Wilson walked Valade throug brief presentation, complete with proj tions of cash flow and industry sal Sources close to Wilson say Valade w ried that Chrysler might become a ta over target and voiced interest in W

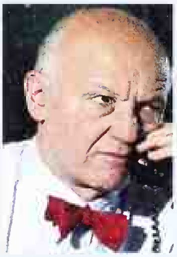
, 1995 Wilson meets Valade
mas Denomme, Chrysler's vice-
n, in Detroit to reiterate the
hrysler says it again did noth-
ıcourage the bid.

1995 Alex Yemenidjian and
or, Kerkorian's key dealmakers,
:h Valade and Denomme in De-
ey again present the buyout
. Chrysler says the executives
e idea; Tracinda says they ex-
some interest.

1995 Kerkorian telephones
n Robert Ea-
ırysler's Wal-
oria suite to
lans to pro-
h his $20.5
uyout. Eaton
mmittal; says
resent the
to the board.

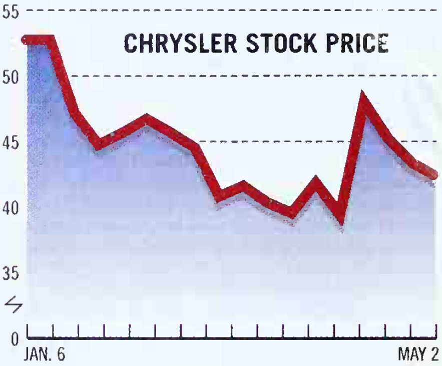
APR. 12, 1995 Skipping a scheduled speech at the New York Auto Show, where he was to plug the company's new minivans, Eaton grabs a company Gulfstream G4 back to Detroit for hurried consultations with his board. The board says the company isn't for sale.

APR. 19, 1995 Bear Stearns's Ace Greenberg, Kerkorian's longtime investment banker, bows out of the effort to raise cash for the bid. Prospects for coming up with financing dim.



APR. 24, 1995 Chrysler's board meets in suburban Detroit and unanimously rejects Kerkorian's offer.

APR. 25, 1995 Kerkorian angrily demands Chrysler put the buyout proposal to a shareholder vote, even though financing won't be lined up. Chrysler shares fall to around $43, from $49 the day the bid was announced.


CHRYSLER STOCK PRICE

DATA: BLOOMBERG FINANCIAL MARKETS

APR. 28, 1995 Kerkorian confirms he has hired D.F. King, a proxy solicitation firm, raising speculation that he will mount a proxy fight for control of the company.

s proposal. A Chrysler insider says
ıde listened but lent no support.
ust as the Valade meeting was com-
together, Wilson also approached Ker-
ian about throwing his 36 million
res behind the deal. He met with
korian and Yemenidjian in Kerkorian's
:e just off Rodeo Drive in Beverly
s, Calif. Kerkorian found Wilson's idea
resting, too, but already was strong-
ıing Chrysler to boost its stock price
raising its dividend and buying back
:k. On Dec. 1, Chrysler took those
ɔs and raised the trigger point for
ysler's poison-pill to 15% of shares
ı 10%, giving Kerkorian the option of
ing more stock.
ıt about that time, Wilson ran into
ɔcca at a party at Day's house in Los
geles. Wilson pitched the buyout no-
to him, too. Iacocca also expressed
rest but didn't sign on. He suggested
ead that Wilson take his proposal to
ımas G. Denomme, Chrysler's vice-
ırman.
Iere, the deal got sidetracked, briefly.
er Chrysler announced a 60% divi-
d hike and a $1 billion stock buyback,
share price spiked to more than $50.
h a buyout becoming more expen-
, Wilson temporarily lost interest. By
ch, though, slowing car sales and ris-
interest rates sent the stock drifting back down to around $40 a share.

On Mar. 30, Denomme and Valade trundled back out to the airport. This time, Wilson presented a more detailed, 25-page plan. A source who knows about Wilson's plan says Wilson explained that the deal could be done with or without Kerkorian and suggested that he be asked to limit his ownership to the current 10%. Again, sources close to Wilson say he got a positive response. But a Chrysler insider contends that "at every step along the way, they were told there was no interest."

CRYPTIC RESPONSE. Nonetheless, Eaton decided to tell board members about the talks. Before the company's Apr. 6 board meeting, Eaton laid out the proposal to executive committee members Robert J. Lanigan, retired chairman of Owens-Illinois; Peter A. Magowan, chairman of Safeway; and Malcolm T. Stamper, retired vice-chairman of Boeing. They did not take the issue to the whole board.

In hindsight, they should have, because events rapidly accelerated. Kerkorian, exasperated by Wilson's slow pace, decided to move decisively on his own. On Apr. 10, Denomme and Valade returned to the Detroit airport for a third presentation, this time from two Tracinda officials, Yemenidjian and Dan Taylor, a financial executive. The duo walked the Chrysler brass through an 11-page presentation. Valade kept his copy, and Chrysler later turned it over to CS First Boston Group, the investment banker heading its anti-takeover defense.

The next evening, Kerkorian startled Eaton, who was in New York, with the news that he intended to push ahead with the buyout. Chrysler sources say Eaton agreed to take the proposal to his board. On Apr. 12, Eaton hopped a Chrysler Gulfstream G4 to Detroit to strategize with top executives and board members. At 9 a.m., Kerkorian rattled windows from Wall Street to Main Street with his blockbuster $20.5 billion bid. Yemenidjian, hoarse from a bad cold, endured a two-hour conference call with dozens of skeptical reporters. He laid out the bare outline of the plan: Use $5.5 billion of Chrysler's own cash as a downpayment, round up partners with $3 billion in equity, and raise $12 billion in loans and other debt. He admitted that none of the financing was in place.

Chrysler, meanwhile, was gearing up for war. During the day, Yemenidjian called William J. O'Brien, Chrysler's general counsel, to ask for the company's response. O'Brien's answer? A cryptic "business is business." Says Yemenidjian: "In retrospect, that was when I first knew we had trouble on our hands." At 7

(CLOCKWISE FROM BOTTOM LEFT) PHOTOGRAPHS BY JIM LEYNSE/SABA, STEVE WOIT, O. CRALLE/THE IMAGE BANK, NONE, JEFF SCHELD/GAMMA-LIAISON, JODI BUREN, LISA QUINONES/BLACK STAR, TIMOTHY WHITE/ONYX, CHART BY LISA KNOUSE BRAIMAN/BW

p.m., after conferring with board members by phone, Eaton released a statement saying the company was not for sale. Yemenidjian complains that top officials never signaled opposition to the deal until it was launched. "It was very clear to us that Bob Eaton was informed, and not once did he say to us, 'don't do this, it will be hostile, and we will fight you.'"

The following Monday, Apr. 24, Chrysler's board met at the company's sprawling technical center north of Detroit. Directors unanimously rejected the offer, then listened to possible defensive moves presented by Chrysler's bankers. The following afternoon, Kerkorian fired off a blistering letter, demanding that Chrysler put his $55-a-share offer to shareholders, or barring that, raise the dividend to $5 a share. Eaton refused.

How will this battle end? Even if K korian can rally grassroots supp among shareholders for a buyout, biggest hurdle still looks insurmountal raising the financing. Until he does, billionaire's plan simply lacks all credi ity. For now, at least, Chrysler see ready to try to wait him out.

By David Woodruff in Detroit a Ronald Grover in Los Angeles

KIRK KERKORIAN'S ALTER EGO

The private jet awaits the trip to New York. Team Kerkorian is assembling in an eighth-floor suite at the Four Seasons Hotel in Beverly Hills, Calif. Lee A. Iacocca is at one end of the sofa; at the other is Dan Taylor, a financial executive at Kerkorian's investment arm, Tracinda Corp. In the middle of all the activity, alternating between English and Armenian as he switches lines, Alex Yemenidjian is working the phones. A potential partner checks in from London. The boss, billionaire Kirk Kerkorian, calls from Las Vegas, sending Yemenidjian to the privacy of a second room.

Until the Apr. 12 unveiling of Kerkorian's $20.5 billion plan to take Chrysler Corp. private, the 39-year-old Yemenidjian largely was unknown to the outside world. But to those in the know, he's the 77-year-old billionaire's alter ego. Indeed, as Kerkorian regroups to battle a staunchly resistant Chrysler board and management, he is relying heavily on Yemenidjian.

YEMENIDJIAN: *From casino deals to Chrysler*

ALAN LEVENSON

BLUE-COLLAR BOYS. While Kerkorian has maintained his characteristic low profile since the Chrysler announcement, Yemenidjian has been on the front lines. The day of the announcement, he fielded questions for two hours from reporters. Since then, he has shuttled between Vegas, Los Angeles, and New York on Kerkorian's private jet, chatting up potential investors and plotting strategy.

Yemenidjian's role reflects his tight bond with Kerkorian. Although Yemenidjian was born in Argentina and Kerkorian in the U.S., both are sons of blue-collar Armenians. When they met at a 1989 lunch, Yemenidjian was the managing partner of an accounting firm, providing financial advice to Hollywood types such as TV anchor Mary Hart and actress Jennifer O'Neill. Within a week, Kerkorian hired Yemenidjian.

A CPA with a penchant for Hugo Boss suits, Yemenidjian quickly became the primary dealmaker for Kerkorian's empire of Hollywood and Vegas holdings. He raised nearly $900 million in debt and equity to build Kerkorian's MGM Grand Hotel & Casino and helped the boss sell the MGM film studio to Italian financier Giancarlo Perretti for $1.3 billion. When Kerkorian wanted to expand his MGM Grand luxury airline, Yemenidjian sized up ailing Pan American World Airways and Trans World Airlines. Kerkorian didn't bid on either, and late last year, Yemenidjian unloaded the airline for a small profit. "Kirk doesn't like to use investment bankers," says Kerkorian's attorney Terry Christensen. "He makes his own decisions, but he trusts the information Alex collects for him, and he trusts Alex' judgment."

TYSON'S RETURN. Before the Chrysler deal, Yemenidjian focused on expanding Kerkorian's casino holdings. He moved from Los Angeles to Las Vegas in 1992, and as chief financial officer at Kerkorian's 74% owned MGM Grand Inc., he supervised construction of the $1.1 billion MGM Grand hotel and hired its top staff. In March, Yemenidjian negotiated a six-fight deal—at the MGM Grand—for former heavyweight champion Mike Tyson's return to the ring after serving a three-year prison sentence.

Once Chrysler started heating up, however, Tyson turned into a sideshow. Yemenidjian won't divulge his next steps. But it's apparent that Kerkorian's angry Apr. 25 letter to Eaton, in which he challenged the auto maker to put his offer to a vote of shareholders, sums up Yemenidjian's sentiments as well. "Is the duty of management to protect their jobs and keep their bonuses, or to enhance shareholder value?" Yemenidjian asks. "And if they are not going to do something about increasing shareholder value, then we will do it for them."

How? Yemenidjian waves off the question. "Stay tuned," he says. "This is not greenmail, and we're not going away." With that, his team regroups to head for their next meeting. There's an airplane waiting.

By Ronald Grover in Beverly Hills, Calif

UPERT MURDOCH'S THER NETWORK

l the mogul's GOP allies deflect the FCC?

OLD WARRIOR: *Murdoch's battle stretches back to 1985*

TOM SOBOLIK/BLACK STAR

upert Murdoch was in his element as he hobnobbed with Washington's power elite at the White House ·espondents' Assn. dinner on Apr. The News Corp. chairman sat with ıtor Alfonse M. D'Amato (R-N. Y.) they chatted a bit about a Federal ımunications Commission probe of ges that Murdoch hid his foreign pany's huge equity stake in the Fox vork. D'Amato didn't need much incing. "I think [the investigation] is ble," D'Amato griped. "It's a politi- endetta."

he smooth lobbying was vintage doch. His deft courtship of high- ered Republicans helped him launch urth network in the first place, and OP cronies appear to be bailing him again—and saving him up to $200 on in capital-gains taxes. In late il, the FCC staff recommended a ly restructuring of News Corp.'s est in Fox Inc., finding that it vio- l foreign-ownership restrictions. But ers say the agency has decided to Murdoch off the hook anyway, gh it has delayed the announce- t. "There's no case for any kind arsh punishment," says one FCC nissioner.

he imbroglio started as a regulatory er, but has evolved into a political . The players include House Speak- lewt Gingrich (R-Ga.), House tele- nunications subcommittee Chairman Fields (R-Tex.), Senate Commerce mittee Chairman Larry Pressler .D.), and House Minority Whip Da- Bonior (D-Mich.).

ING STRINGS. The FCC's investiga- was triggered in 1994 by complaints the NAACP and NBC. It picked up n after the November election. That Murdoch and his allies a hook from h to hang their claim that the es were politically motivated. His *York Post* has long been a stri- critic of President Clinton, and FCC rman Reed E. Hundt has close per- l ties to Clinton and Vice-President ore.

ough Hundt denies playing politics, Murdoch has been busy pulling strings. Last fall, he discussed the FCC dispute with the newly elected Gingrich, who had just signed a $4.5 million book deal with Murdoch's HarperCollins publishing unit. Bonior seized on the book contract, forcing Gingrich to give up the huge advance and charging that the media mogul was buying GOP influence.

That's all the Murdoch forces needed to spring into action. Calling Bonior's comments "scurrilous," Fox chief lobbyist Preston Padden helped rally congressional Republicans to his boss's defense. Pressler shot off an irate letter to Hundt on Dec. 23, accusing Democrats of trying to "politicize" the foreign-ownership issue. And Fields vowed in April to make life miserable for the FCC if it unfairly penalizes Murdoch.

The FCC gave Murdoch more fodder when its general counsel advised staffers to stay away from the Fox Christmas party, at the same time approving attendance at NBC's. "The FCC must like sticking pins in a Rupert Murdoch doll," gripes Representative Michael G. Oxley (R-Ohio).

Further undermining the FCC's case against Murdoch, GOP House members on May 3 called for repeal of all foreign-ownership restrictions as part of an overhaul of telecommunications regulations. That would remove the very regulation that lies at the heart of the FCC case.

The matter dates back to 1985, when Murdoch launched Fox. Then-FCC Chairman Mark S. Fowler, a gung-ho advocate of competition, was thrilled that the News Corp. chief wanted to challenge the three existing networks by buying seven Metromedia Co. stations for $2 billion. But Murdoch had a little problem: The law limits foreign ownership to 25% of equity. Murdoch was an Australian at the time, and his company, which would own 99% of the equity, was based in Sydney. So he became a U.S. citizen and devised a complex business structure that critics contend hid News Corp.'s full stake. FCC staffers insist they were duped, a charge Murdoch denies.

Although a majority of the five commissioners believes Murdoch may have violated the rules, they also think the competitive benefits of a fourth network outweigh any infraction, according to agency sources. Some commissioners say they are also miffed by what they see as Hundt's unseemly pressure on the staff to force the restructuring. "The chairman got rolled," says a colleague. That's the risk you take when you tangle with Murdoch.

By Mark Lewyn in Washington

ietting the FCC to drop its complaint will save Murdoch some $200 million in capital-gains taxes

DRUGS

A PATENT MEDICINE CALLED GATT

For makers of branded drugs, it could prove a powerful tonic

It wouldn't be surprising if Robert J. Gunter took a dose of his own medicine. President of generic drugmaker Novopharm USA Inc., he has spent five years gearing up to produce a generic version of Glaxo Holdings PLC's blockbuster ulcer drug, Zantac. He even invested $40 million in a plant in Wilson, N.C., built to pump out the low-cost version as soon as Glaxo's first patent expires in December.

Now, Gunter finds himself in the middle of a stomach-churning patent battle. Glaxo and other brand-name pharmaceutical giants are claiming that the General Agreement on Tariffs & Trade (GATT), signed by President Clinton in December, extends many of their patents, Zantac's among them. More important, they argue, the extended patent term gives them extra months—even years—of protection from competing generics.

While the case relies on complicated legal arguments, it boils down to whether provisions in GATT supersede a 1984 law that prevents the Food & Drug Administration from approving generics until the patent on a name brand expires. If the arguments prevail, more than 100 brand-name products will win an average of 12 months each of extra patent protection (table). A new study from the University of Minnesota estimates that the extra protection could give the drugmakers a windfall of $6 billion over the next 20 years. "That's obscene," fumes Senator David H. Pryor (D-Ark.). "American consumers are going to pay the bill."

"EUREKA" MOMENT. Pryor, a handful of other lawmakers, and the generics companies are fighting back. On Apr. 27, Pryor and five other senators asked the FDA to reject the brand-name companies' interpretation of GATT. Vows Novopharm's Gunter: "If the pharmaceutical industry thinks generics will roll over and play dead on this, they have another think coming." The FDA's decision is expected within weeks, but the wrangling won't end then. FDA officials and executives on both sides predict that whatever the FDA decision, the loser will take the issue to court.

The high-stakes controversy wasn't anticipated when GATT was approved late last year. The agreement harmonized U.S. law with the rest of the world's by changing patent terms to 20 years from the initial filing instead of 17 years after being granted. Most companies thought the change applied only to new patents, but soon after passage, Glaxo's lawyers had a "eureka" moment. Poring over the legislation, "we realized that for many of our existing products, patent life would be extended," says associate general counsel Marc Shapiro.

BESTSELLER: *A favorable ruling would keep Glaxo in the pink*

A WINDFALL IN THE MAKING

Pharmaceutical makers are seeking an average of 12 months' extra protection from generic competitors for more than 100 drugs

DRUG COMPANY/ USE	MONTHS OF ADDED PROTECTION	POTENTIAL EXTRA REVENUES BECAUSE OF LACK OF GENERIC ALTERNATIVE MILLIONS OF DOLLARS
ZANTAC Glaxo/ulcers	19	$1,000
MEVACOR Merck/ cholesterol-lowering	19	$448
DIFLUCAN Pfizer/ antifungal agent	20	$410
PRILOSEC Merck/ulcers	17	$586
CAPOTEN Bristol-Myers Squibb/hypertension	6	$101

DATA: PRIME INSTITUTE, UNIVERSITY OF MINNESOTA

NOVOPHARM'S KNOCKOFF: *Worth millions once it's available in the U.S.*

As a result, any patent that took under three years to win approval wo
have longer protection. Since the
Patent Office took only 17 month
grant the first of two key patents
Zantac, the change would give the c
pany an additional 19 months of
tection for its top-selling drug.

But even as GATT changed pat
terms, Congress tried to prevent h
to rivals that had been counting on
original expiration dates. Lawmak
inserted a clause permitting a comp
to introduce a competing product on
original patent expiration date if
company had made significant prior
vestments and if it paid the patent h
er a royalty or some other form of
uitable remuneration." While Jerem
McIntyre, counsel for generic drugm
er Geneva Pharmaceuticals Inc., c
that "a fair balance," on the theory t
it's better to pay a royalty than not
allowed into the market at all, the pr
sion would squeeze generic drugm
ers' already thin profit margins.

OVERSIGHT? Meanwhile, Glaxo, Bri
Myers Squibb Co., and other bra
name companies are arguing that
escape clause shouldn't even apply
the drug industry. The reason, they
is that it clashes with provisions i
1984 U.S. generic-drug law that
vents the FDA from approving a gen
drug until the brand-name patent
pires. Unlike other instances wh
Congress amended existing laws to
form with GATT, it failed to resolve
conflict—implying an intent to keep
isting law intact, says Glaxo's Shap
Pryor and others plead simple ov
sight. But the big drugmakers insist
claiming what they see as theirs.

In the coming fight, generic dr
makers face an uphill struggle. "
have to be better organized, and sp
more money to get our mess
across," says Bruce Dow
CEO of Barr Laborato
Inc., a generic drugma
in Pomona, N.Y. As
cymakers focus once ag
on rising health-care co
the generic companies
have one potent messa
If the brand-name com
nies win, Americans
pay billions more
drugs. Faced with
prospect of dramatic
higher costs, "I can't
lieve the [FDA] won't m
the right choice," says Lewis A. E
man, president of the Generic Phar
ceutical Industry Assn. Robert Gu
can only hope he's right.

By John Carey in Washing

ngressman Foley — tand Up for OUR JOBS!
Greetings from 420,000 American Sugar Families
WELCOME TO SOUTH FLORIDA

PROTEST IN FLORIDA: *This time, growers may have to accept reform*

BSIDIES

IG SUGAR MAY BE BOUT TO TAKE ITS LUMPS

e pressure is on to end "the most costly cartel…since OPEC"

n Mar. 29, Representative Dan Miller (R-Fla.) stood in a crowded Capitol Hill office and made what unts to a near-treasonous declaration nany Floridians: He vowed to kill a ral subsidy program that provides a billion annual windfall to U. S. sug-rowers. "It's corporate welfare," he ged. That sent Big Sugar's lobbying hine into overdrive. An hour later, a colleague from an adjoining district, k Foley, denounced Miller for aiding sidized European farmers at the ex-se of the U. S. sugar industry.

he exchange dramatizes the growing le in Congress about whether to kill ar growers' sweet subsidies. Al-ugh opponents have failed to do so y times before, GOP rts to balance the get make the program denly vulnerable.

FARE? The sugar-subsi-issue is explosive be-se it pits a strange alli-e of GOP free-marketers liberal Democrats inst supporters of pow-l, parochial interests. addition, the issue has industrial group—the wers—in combat with ther—big sugar buyers. gar's going to become poster boy for corpo-e welfare," predicts mas A. Hammer, president of the Sweetener Users Assn., which represents big corporate buyers of sugar. Their goal: to pay the lowest possible price for sugar.

Such interests have won the support of House Majority Leader Richard K. Armey (R-Tex.), who has led the charge to abolish what he calls "the most costly cartel to American consumers since OPEC." Miller and Representative Charles E. Schumer (D-N. Y.) plan to co-sponsor a bill in mid-May to kill the sugar-subsidy program, and a similar bill will be introduced in the Senate. "The political landscape has changed," says one Senate aide.

Sugar farmers know they've had a great deal for years. While the government doesn't give cane and sugar-beet farmers direct cash subsidies, it provides them with low-cost loans from the U. S. Treasury, guarantees a price much higher than the world market's, and restricts imports. The result: A 1993 General Accounting Office study found that inflated sugar prices cost American consumers $1.4 billion a year.

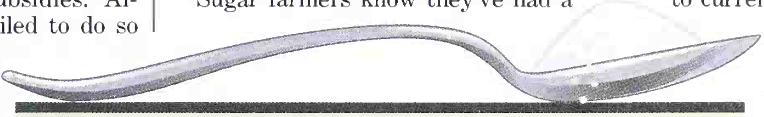
ODD BEDFELLOWS. In the past, growers fended off attacks by arguing that without the program, European producers would dump their own subsidized sugar onto the world market. But that argument is losing sway. Powerful corporate buyers such as Coca-Cola, Hershey Foods, Kraft Foods, and Nabisco Foods have teamed up with consumer groups and environmentalists for the first time. The odd bedfellows call themselves the Coalition to End Welfare for Big Sugar and have run ads attacking the subsidy.

Sugar is fighting back. At a congressional hearing on the subject held in Florida on Apr. 27, more than 500 farmers turned out to plead with lawmakers to save their jobs. Industry heavy hitters such as J. Nelson Fairbanks, president and CEO of U. S. Sugar Corp., have met with key Washington lawmakers several times. And Pepe Fanjul, CEO of Flo-Sun Inc., a huge sugar grower in West Palm Beach, Fla., hosted a March fund-raising dinner for Senate Majority Leader Bob Dole's Presidential bid. Rep. Armey calculates that the Fanjul family receives as much as $64 million in annual benefits, though they dispute the figure.

The growers also have a long history of generous campaign contributions. Sugar PACs and a few individual donors have contributed $11.3 million to congressional candidates and $1.3 million to current House and Senate Agriculture Committee members since 1979, according to the Washington-based Center for Responsive Politics.

But generous donations may not save sugar this time. House Agriculture Committee Chairman Pat Roberts (R-Kan.), a powerful ally for sugar producers, says the growers' best hope is to accept cost-cutting reforms "or their programs may go the way of honey, wool, and mohair." A bittersweet choice, to be sure.

By Mary Beth Regan in Washington

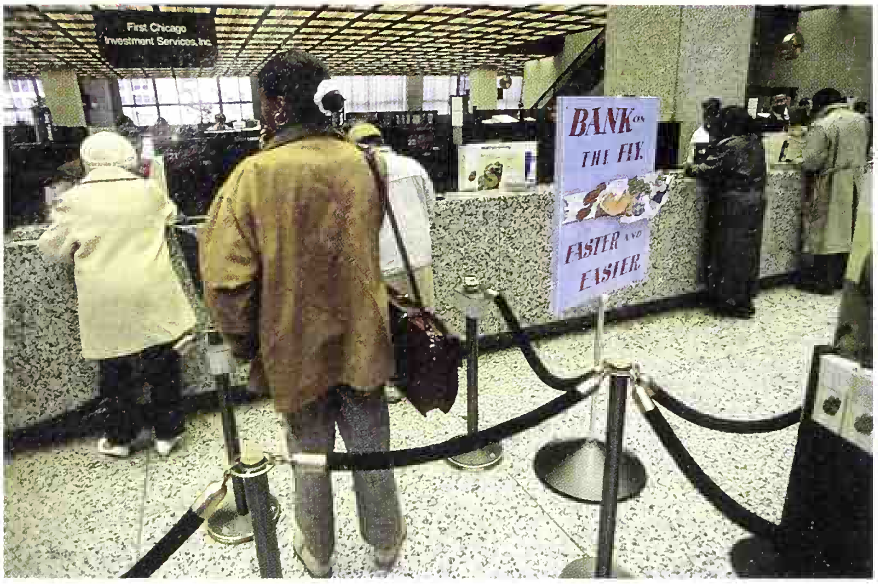


The Sugar Wars

GROWERS SAY IF THE SUBSIDY IS CUT:	BUYERS SAY IF THE SUBSIDY REMAINS:
▶ As many as 420,000 U.S. farm jobs would be lost	▶ U.S. buyers may be forced to move overseas
▶ Farmers would face subsidized European competition	▶ Consumers will pay an extra $1.4 billion annually
▶ World sugar prices would soar, causing higher U.S. prices	▶ U.S. prices will stay 8¢ per pound higher than elsewhere

DATA: FLORIDA SUGAR CANE LEAGUE, U.S. SWEETENER USERS ASSN.

PHOTOGRAPH BY RED MORGAN; ILLUSTRATION BY LISA KNOUSE BRAIMAN/BW


First Chicago Investment Services, Inc.
BANK ON THE FLY
FASTER AND EASIER

BANKING

'THANKS FOR YOUR DEPOSIT. THAT'LL BE $3'

A plague of fees is spreading–and for good reason, bankers say

Outside the First Chicago bank branch in tony Lake Forest, Ill., Shaun C. Borden is threatening to take his "six-figure" account to another bank. "I don't like the attitude of First Chicago," says the president of Swiss Financial Securities Inc., a brokerage firm. Borden is steamed because of the bank's plan, announced on Apr. 25, to slap thousands of customers whose balances total less than $2,500 with a fee of $3 for visiting a teller when they could have used an ATM. Borden isn't in that category, but perception counts—and his is that the bank is unfairly jacking up its fees.

Like Borden, bank customers across Chicago are outraged. Now, the city's largest bank is scrambling to respond to what one of its board members calls a "public relations disaster." First Chicago Chairman Richard L. Thomas quickly mailed letters to all customers seeking to clarify the fee issue. Analysts think the bank may have to at least partially retreat from its new plans, though Executive Vice-President W. G. Jurgensen contends the bank is "only going after excessive transaction activity."

However First Chicago responds, though, bank customers everywhere are having to get used to forking over fees for what once came free. From Bank of America on the West Coast to Citicorp back East, banks increasingly are nickel-and-diming customers in ways that add up to big revenue. Since 1990, service charges on deposit accounts alone have grown from $11.4 billion to $15.3 billion (chart). And fees are likely to keep growing. Chris M. Bauer, chairman of Firstar Bank Milwaukee, predicts that eventually the whole industry may have to move in First Chicago's direction.

IRKSOME ACCOUNTS. Many banks already have. Indeed, First Chicago riled consumers over an old idea: In California, Wells Fargo Bank began charging teller fees for some accounts back in 1987; BofA did so in 1992. Meanwhile, fees keep rising even as banks add new ones. *Bank Rate Monitor* reports ATM fees rose 17% last year, to an average of about $1. Three years ago, 35% of banks leveled a charge on customers who unknowingly deposited someone else's check that bounced; today, it's 85%, reports the U. S. Public Interest Research Group. Banks impose dozens of other fees,

DON'T THEY WANT OUR MONEY? *No always. Some accounts are a pain.*

The fact is, many bankers would some customers to shift to a cr union or small bank. "As long as t is service available somewhere, let marketplace work," says Norwest C CEO Richard M. Kovacevich.

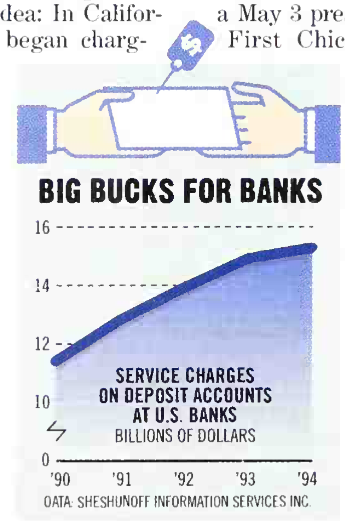
The trick is to coax unprofitable tomers into paying their freight. F Manhattan Consulting Group Inc. ures that 50% of households with b accounts are money-losers for ba These are low-balance customers constantly bug tellers with request inspect their balances or see if a ch has cleared. The result is anemic re nues and high costs. The dange dumping a whole class of customers course, is that the profitable custom could walk, too.

POLITICAL FLAK. One of the few ba to finely dice its customers by pr ability is Firstar Corp., the parent Bauer's Milwaukee bank. When ranked customers for money-making tential, 15% of households with inco over $125,000 were unprofitable, w 76% of households with incomes un $25,000 a year were profit generat The first group had relatively low ances but demanded costly personal tention; the latter group had even lo balances but eschewed tellers for l cost ATMs. The lesson: Getting ric low-income clients isn't the solution.

Still, bankers may ignite a polit powder keg with their fees. "A la proportion of the population belie they have a constitutional right to f banking service, including congressm says Joel Friedman, senior partne Andersen Consulting. Indeed, Rep sentative Maxine Waters (D-Calif.) u a May 3 press conference to denou First Chicago and push a bill freeze all fees for t years.

The bill proba won't pass, but ba can't afford to anta nize Congress wh pushing for repeal of Glass-Steagall Act b ring them from bu nesses such as securi and insurance. Eve First Chicago retreat bit, rising bank fees here to stay.

By Russell Mitch in San Francisco Richard A. Melcher Chicago



DATA: SHESHUNOFF INFORMATION SERVICES INC.

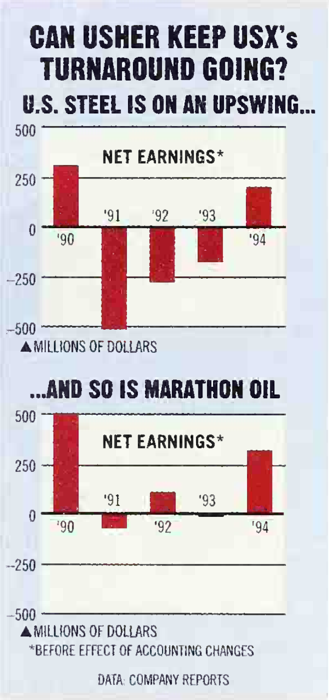
PHOTOGRAPH BY TODD BUCHANAN; CHART BY LISA KNOUSE BRAIMAN/BW

REAL STEELMAN OR USX

n Usher's record is solid, but his style could be a problem

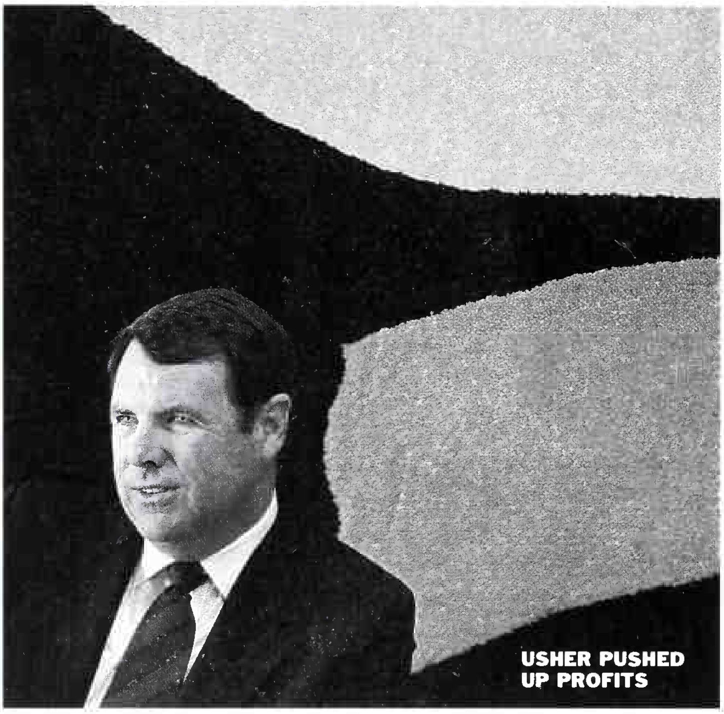
ast December, when USX Corp. Chairman Charles A. Corry was arrested in Washington for carrying a ed gun into a federal building, the onse in Pittsburgh was quiet glee. y, who faced a misdemeanor charge later was dropped, has never been vorite in Steeltown. After all, he the one who pushed U.S. Steel the energy business, with a $6.5 on buyout of Marathon Oil Co. in . Later, he put the steel unit on block but couldn't a buyer. Rumors led in the early '90s Corry even would e the headquarters he steel giant to ston.

ow the steel stal- ts can rejoice: One heir own is back in ge. On Apr. 25, the d of the $19 billion lomerate announced it has picked a vet- steelman, Thomas sher, 52, to replace y, who is retiring in , a year and a half d of schedule, citing onal reasons. As ident of U.S. Steel up for five years, er pushed up pro- ion and profits, ezing more tonnage mills in Gary, Pitts- h, and Birmingham. challenge: to keep the steel group the upswing while driving down s at the oil company. But now that on a broader stage, Usher may to ease up on his sometimes raw, t-from-the-lip style.



*BEFORE EFFECT OF ACCOUNTING CHANGES

DATA: COMPANY REPORTS



USHER PUSHED UP PROFITS

D-NOSED LITIGATION. In many ways, er boasts an ideal résumé for run- an industrial behemoth. He has a in systems engineering from the ersity of Pittsburgh and 29 years of rience in the company, much of it at plant level. He's smooth and articu- with Wall Street and at ease dis- ing global trends with his joint-ven- partners from Korea and Japan. jokes readily with workers, both at quarters and at the mills. "He's a ral leader," says Matthew Botsford, ident of WorldClass Processing Inc., a Pittsburgh steel servicing company. "People there believe in him."

However, Usher has been known to go too far. Two years ago, speaking to the Association of Women in the Metal Industries, attendees say that he opened with a lengthy series of sexual jokes, some of them targeted at specific members of the host organization. "It was pretty raunchy," recalls one member of the group. "It wasn't appreciated." Usher notes that the association continues to invite him to speak. Whether the jokes were offensive, he says, may be "in the eye of the beholder."

The chairman-to-be also shows signs of carrying on USX's tradition of hard-nosed litigation that sometimes backfires. In the most prominent case, the company was slow to settle a longstanding antitrust suit lodged against a former holding of U.S. Steel, Bessemer & Lake Erie Railroad, and ended up in 1993 on the wrong end of a $498 million verdict. What's worse, the money went in the form of damages straight to some of U.S. Steel's toughest competitors. Usher says that the best chances to settle were already lost before he and Corry started to run the company.

A year later, when National Steel raided his Gary mill, hiring plant management for top executive jobs, Usher sued National and pushed for an injunction. He and his team flew to Hammond, Ind., and insisted in state court that National was merely intent on crippling a competitor and stealing trade secrets. The injunction was quickly dismissed. But USX still is pushing ahead with a longshot suit against National and its Japanese owner, NKK. "We were the aggrieved party," he insists.

IMPROVING PICTURE. Despite such spats, Usher has led U.S. Steel to an impressive comeback. In the past five years, the company has pushed ahead of German and Japanese rivals in productivity. At the same time, he has prepared for a down market in common grades of steel by forging high-tech joint ventures with Japan's Kobe Steel Ltd. And last year he even teamed up with minimill nemesis Nucor Corp. in a joint venture to develop new steelmaking technology.

At Marathon Oil, Usher steps into an improving picture. Production is up 30% in two years, now that big projects in the North Sea and the Gulf of Mexico are coming on strong. But its consortium in Russia, the Sakhalin Energy Investment Co., is running into bureaucratic resistance. Marathon's stock—which was separated from the steel stock four years ago under pressure by Carl C. Icahn—is at 19, a 12-month high but still 25% below its level at the time of the split. More cost-cutting seems called for, and Usher certainly knows how to do that: U.S. Steel axed more than 100,000 jobs in the 1980s. With him at the helm, Marathon may be in for similar medicine.

By Stephen Baker in Pittsburgh

PHOTOGRAPH BY SCOTT GOLDSMITH. CHART BY ERIC HOFFMANN/BW

DEALS

RYKA LOOKS LIKE IT'S ON ITS LAST LEGS

The failed L.A. Gear merger puts Ryka's future in jeopardy

As she left work on Apr. 27, Ryka Inc. Chief Executive Officer Sheri Poe was confident she had finally clinched a deal to sell her struggling maker of women's athletic shoes to larger rival L. A. Gear Inc. It hadn't been easy: A merger accord signed on Jan. 30 had fallen apart because of Ryka's deteriorating financial condition. But the two companies had hammered out a revised pact, and Poe hoped to announce the new plan as early as the following day. The two companies had even prepared a joint press release.

But moments after arriving home that evening, Poe got a call from L. A. Gear President William L. Benford. His brief, blunt message: The deal was off. Poe says Benford didn't really explain the sudden about-face. "I was shocked," she recalls. "It was bizarre."

BETRAYAL. Bizarre or not, the collapse of the merger has left Ryka struggling for its life. The Norwood (Mass.) company is in default on its main loan and faces a cash shortage and punishing losses. Poe says Ryka is in talks with several potential rescuers and hopes to secure a bridge loan. But time is short. Addressing speculation that Ryka only has enough cash to last two months, Poe says: "I don't know that we even have that long."

From the start, L. A. Gear wanted Ryka partly because it would add something entirely new to its line of hip, stylish sneakers. Ryka made its name as a pioneer in serious-minded "cause marketing." A rape survivor, founder Poe wove her personal trauma into a potent marketing message linking fitness and empowerment of women.

But the deal quickly began to sour. Committed to Poe's mission, many Ryka shareholders and employees felt betrayed when the company agreed to the $16.4 million L. A. Gear merger. They felt the price—just 62¢ a share—was inadequate. And the perk-laden employment agreement Poe cut (while leaving other managers to fend for themselves) made matters worse. Four shareholders filed class actions, while others started a grassroots campaign to kill the deal. In February, Ryka's chief financial officer, Roy S. Kelvin, quit in disgust.

Meanwhile, Ryka's finances began to deteriorate markedly. Since its founding in 1987, the company never has posted an annual profit and has been in a perpetual cash crunch. In 1994, it lost $511,000 on revenues of $16.3 million. Last August, when L. A. Gear approached it, Ryka was trying to secure new, long-term financing. The board opted for the merger instead.

But sales started to slip. Poe blames it partly on tough competition, partly on a dearth of new designs. But Ryka insiders also say that the merger caused some key customers to scale back orders, perhaps because many footwear retailers dislike discount-oriented L. A. Gear. Whatever the cause, Ryka announced on Apr. 6 that it expected a loss for the first two quarters, vs. a profit in last year's first half, and faced "a critical shortage of cash." Ryka was forced to go on bended knees to L. A. Gear for a loan.

After more negotiations, the two sides cobbled together a pact that called on L. A. Gear to pay far less for Ryka's stock—around 25¢ to 30¢ a share, estimates a source close to Ryka. Poe also agreed to cut back her employment package, and L. A. Gear was supposed to provide a $1.5 million credit line. Both boards had tentatively approved the deal by Apr. 21, insiders say.

"BAD MATCH." But L. A. Gear's Benford says he and Chairman and CEO Stanley P. Gold were growing increasingly edgy about Ryka's financial plight. The smaller company "was continuing to deteriorate as we went through the negotiations," he says. L. A. Gear was afraid that $1.5 million, which would be totally unsecured, might not be enough—and that the deal might be voted down by Ryka shareholders.

Benford denies any connection, but some outsiders believe L. A. Gear's own financial problems contributed to the deal's demise. On top of years of poor results, the company's first quarter, ended Feb. 28, was woeful: Inventories were up 25%, and the athletic-shoe outfit posted a loss of $12 million on revenues of $9 million. "At this point, L. A. Gear can't afford to overpay," notes Gary Jacobson, a Bankers Trust Securities Corp. analyst.

Lately, Ryka's share price has sunk to a measly 19¢, giving it a market capitalization of just $5 million. But not all is gloomy. "I'm really glad" the merger fell through, says Elizabeth Hermon, a psychotherapist in Cambridge, Mass., who, with her husband, owns 150,000 Ryka shares. "It was a bad match. I'd rather lose all my money than see Ryka run by L. A. Gear." Barring a miracle rescue, Hermon just may get her wish.

By Mark Maremont in Boston, with Nanette Byrnes in Los Angeles

RYKÄ
STRONG

MILLICENT HARVEY

STRAPPED

The athletic-shoe maker is facing big losses in '95, so CEO Poe hopes to find a new buyer. But time is short. Can its cash stretch for the next two months? Says Poe: "I don't know that we even have that long"

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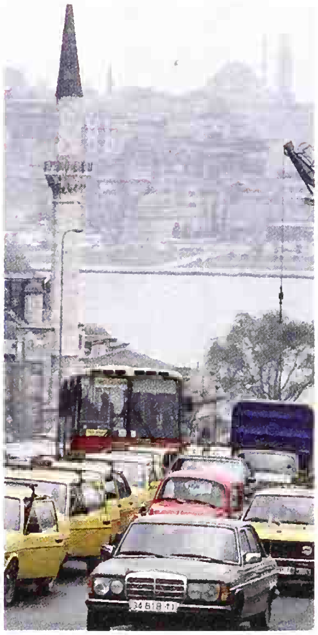
TOXINS

DON'T GET THE LEAD OUT

Great Lakes Chemical bucks efforts to ban leaded gas



LEAD SLEDS: *Istanbul still runs on regular gasoline*

> "Lead is a naturally occurring toxin, as are alcohol, sugar, and salt. Toxins are dangerous only at high dosage rates—in small amounts they do little or no harm."
>
> —Advertisement by a Great Lakes unit that ran on Feb. 25 in the Wellington (New Zealand) *Evening Post*

They all got out: DuPont, Ethyl, and Nalco. None wanted to continue making lead additives in the face of mounting worldwide efforts to stamp out their use in gasoline. The latest: On Apr. 28, the U. N. Commission on Sustainable Development called on all nations to reduce their use of leaded gas or phase it out entirely.

Then there's Great Lakes Chemical Corp., based in West Lafayette, Ind. The company is fighting a controversial rear-guard action to slow the demise of leaded gasoline. Why? Octel Associates Ltd., a British company that is 89% owned by Great Lakes, makes the tetraethyl lead used to boost octane in gas. Last year, Octel accounted for 60% of Great Lakes' $405 million operating profit and 26% of its $2 billion in sales.

BRINGING REASON. To try to lengthen lead's lifetime, Octel is disputing the chemical's toxicity. In New Zealand, the company has run ads that compare lead to "naturally occurring" substances such as alcohol, sugar, and salt. And Octel argues that unleaded gasoline may be worse for human health than leaded. "They are completely misleading," says Princeton University environmental researcher Valerie Thomas.

Studies have linked high concentrations of lead in the body with problems ranging from high blood pressure to lowering the IQ of children. The U. S. began phasing out leaded gas in the early 1970s. Japan, Sweden, Brazil, and several other countries already have total bans. Leaded gas remains in use in much of the developing world, from Turkey to China. Nonetheless, Great Lakes thinks the anti-lead campaign is moving too fast. Says Donald A. Hall, a member of Octel's management board: "We're trying to bring reason to the debate."

Hall argues that if refiners phase out lead too quic they're apt to benzene instead boost octane. A benzene, relea into the environm can pose a can risk. It's possible increase octane w out using much zene, but it c more. What's m Hall says, the c pany has run studies that fail correlate falling bl lead levels and decline of lead in

But Harvard U versity School Public Health P fessor Joel Schwa says that the cor lation between l in blood and lead in gas is ironclad. for the cost, international agencies the World Bank believe that obtain loans to upgrade refineries won't b problem. Loan payments might be nanced by a tax on leaded gasoline.

Tetraethyl lead sales by volume declining by some 10% per year. Great Lakes is using the enormous p its thrown off by the tetraethyl le business to spend up to $200 million nually on acquisitions to prepare for post-lead world. Still, with big earni at stake, don't expect the company back down any time soon.

By Kevin Kelly in Chicago, w Heidi Dawley in London

AIRLINES

GROWING PAINS AT VALUJET

Can the hot little airline cope with success?

PRIDDY AND JORDAN: *"We just want to get rich"*

In October, 1993, four airline industry veterans spent $1 million and did the nearly impossible: They launched an airline that turned a profit in its second month of operations. Record results for ValuJet Airlines have been rolling in ever since. And the company's stock, offered to the public at $6.25 last June, now trades at $27.50. The company's price-earnings ratio: an impressive 26.

Now come the growing pains. To avoid the fate of other Southwest Airlines imitators that flared then faded, ValuJet must keep a lid on operating costs, deal with a tightening market for used DC-9s, and contend with flight attendants and mechanics who vow to organize into labor unions.

ValuJet Chairman Robert L. Priddy and President Lewis H. Jordan swear they'll keep squeezing penn "In prioritizing growth o cost control, we'll choose c every time," says Jordan. Fr its two-plane, three-city st ValuJet now flies into 24 ci with 29 planes for fares as as $39. The planes fly at an dustry-leading 75% capacy and at 43% full, they br even.

ValuJet's secret? Ticketl flying saves about $2 millio year. The airline's secondha DC-9s cost only $5.2 mill each. Add it up, and Valu flies for an industry-best per seat-mile. In 1994, its first full y of operations, the airline earned $2 million on $133.9 million in revenues

Still, growth must be served. P senger-service expenses grew 19% 1994's fourth quarter, and reservat costs jumped 23%—both well beyo

[illegible] PICTURES; ROB NELSON BLACK STAR

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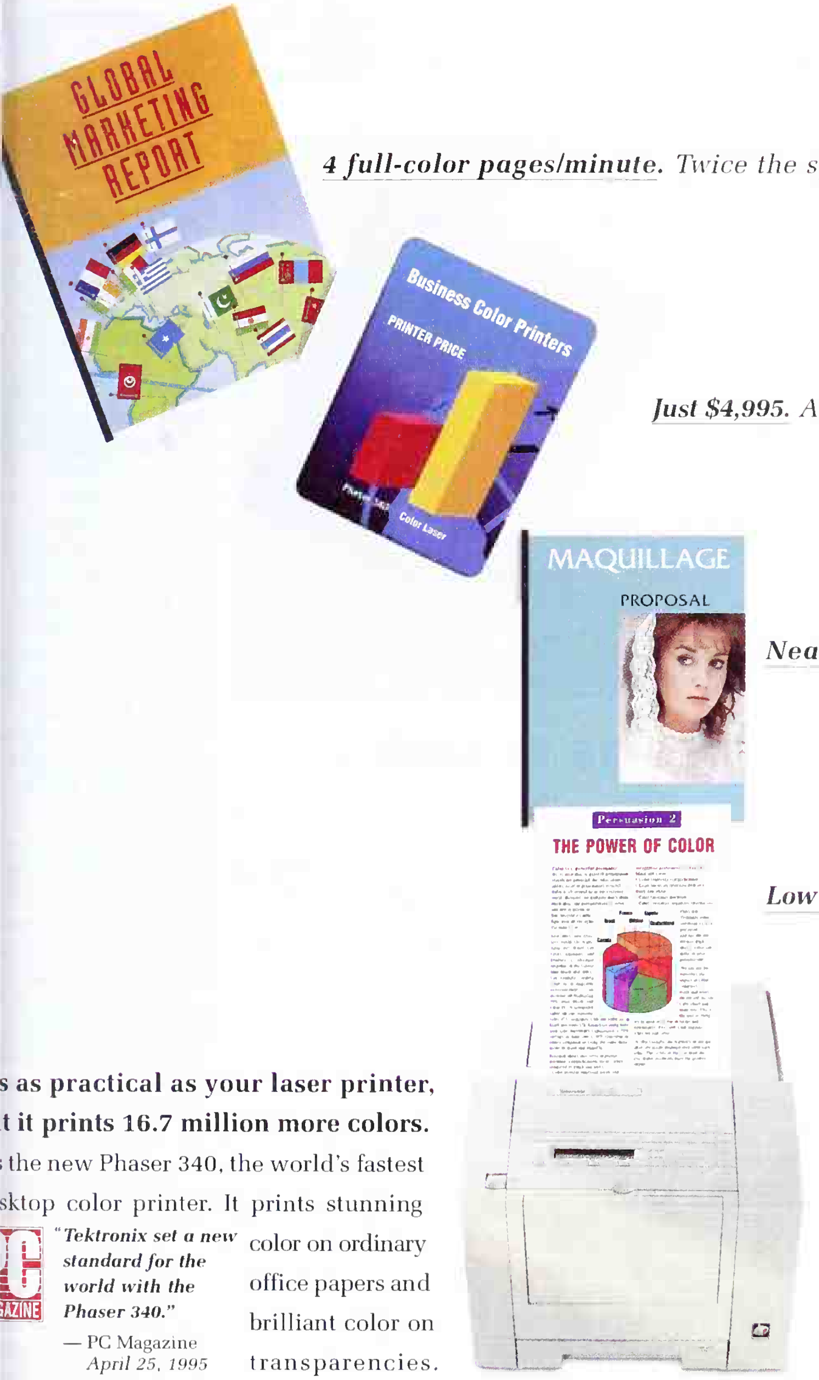
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Tektronix

Tektronix, founded in 1946, is a leader in color printers, measurement products, network displays and video systems.

an 8% jump in passengers. Growth slowed in the first quarter, but still topped bookings. Plane costs could be rising, too. ValuJet recently passed on a group of aircraft priced at $6 million each, but it needs to add planes to maintain growth.

TEMP TANTRUMS. Unionization could raise costs higher. Hoping to thwart the effort, ValuJet on May 4 announced that it will offer sick-day and vacation pay for all employees. That takes some teeth out of the union push, but flight attendants want to boost pay from $11.76 an hour—well below the $16 industry average.

Union organizers also are raising workers' ire over ValuJet's relationship to Jordan Temporary Services, owned by Jordan's 25-year-old daughter, Jennifer, and ex-wife, Angela Ellerbee. Jordan Temporary, which hires most non-pilot workers and employs 1,450 of the 2,700 people working at ValuJet, earned $5.14 million from the airline last year. ts billings are up 30% this year. "This c pany is filled with nepotism," gri s flight attendant Anna Wootten. Valu says it pays Jordan a competitive r e.

Priddy and Jordan swear they'll k growth in line. "Every other sta wants to be another United or D or American," Priddy told analysts. just want to get rich." So far, ValuJ shareholders are doing just that.

By David Greising in Atla

VIDEO

GUTS 'N' GORE —IN 3-D!

Can cool graphics inject life into the video-game market?

Just a few blocks from O.J. Simpson's Los Angeles courtroom, another—albeit smaller—media circus will erupt on May 11. There, three titans of the video-games industry plan to use a multimedia trade show, E3 Electronic Entertainment Expo, to butt heads over the next generation of mind candy: three-dimensional game machines that represent a quantum leap beyond today's playthings.

Sega of America Inc. will herald the U.S. arrival in early September of Sega Saturn, its 3-D machine that leaves the graphics of the top-selling 16-bit Sega Genesis machine in the dust. Nintendo of America Inc., vying for market leadership with Sega, will unveil marketing plans for its Nintendo Ultra 64. And Sony Computer Entertainment of America will be showing off PlayStation, its first foray into the U.S. video-game market. The machine already has made a big splash in Japan. There's more. Tiny 3DO Co. demonstrated its latest 3-D technology, M2, on May 2.

They all are counting on 3-D graphics to inject new life into the slowing games market. The new players use state-of-the-art silicon and graphics engines to produce realistic-looking 3-D images. In a Saturn hockey game, for example, players can view action on the fly, from the perspective of the goalie, a defense man, or an overhead "camera."

JOYSTICKER SHOCK. The new technology is supposed to appeal to the MTV crowd, which has grown bored with the slower speed and graphics quality of 16-bit game players. Researchers believe this new generation of machines will recapture the buzz: Forrester Research projects 13.8 million consoles will be installed in homes by 1997, up from 1.8 million this year. Game makers hope the hardware sales also will lead to a surge in interest in their wares. According to Forrester, sales of video games for the new systems—at $40 to $60 a pop—should reach $1.6 billion by 1997, from about $400 million this year.

Still, the prognosticators may be wrong: Video-game loyalists may not step up to the plate, given the high cost of the new systems. "It's one thing to spend $99 to buy a Sega Genesis or Super Nintendo," says Robert A. Kotick, the CEO of Activision Inc., a producer of video-game and PC software. "It's another thing to bu a $250 or $300 device.

KID CONSULTANTS
In a Nintendo lab

ALEXANDER MARES-MANTON

IN THIS CORNER...

GAME SYSTEM	ESTIMATED PRICE	COMMENTS
Nintendo Ultra 64	$250	The only new system to use cartridges. Rumored to be delayed.
Sega Saturn	$350-$400	Will be packaged with the Virtua Fighter CD game.
Sony PlayStation	$299-$399	Nearly 1 million have sold in Japan.

Nintendo, Sega Sony are hoping flashy machines will in an older, well-hee audience—the typ games maven toda an 8-to-14-year-old To lure adults, S plans to spend $50 lion marketing Satu the most the comp has ever spent on a gle product. Sony spend about $40 mil to spread the Play tion gospel, and 3 around $10 million.

It's difficult to pre which player might the ultimate battle. graphics quality of three is superb, acc ing to early view Nintendo's Ultra 6 the only new mach to run games on tridges rather than c pact disks, which sh hold down the cost consumers by elimi ing the need for an pensive CD-ROM component. But the s tem may be the last one in stores: U 64 had been slated to appear this but may not make it in time for Chr mas. Nintendo will not comment on product's timing.

The choice most likely will boil d to the system that runs the most ri ing games. Sony thinks it has the e because it will offer the first 3-D ver of the wildly popular *Mortal Kom III.* But in a world where megast with names like Sonic the Hedge and Donkey Kong reign, no one forecast with certainty what fickle vi fiends will favor in the future.

By Edward C. Baig in New Y

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In Business This Week

EDITED BY THANE PETERSON

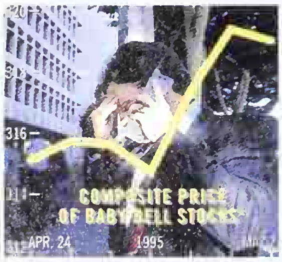
MUCH ADO ABOUT SAFETY AT ALCAN

AS ALCAN ALUMINUM CONVENED its annual meeting in Montreal on Apr. 27, David Hackbirth, former president of its U.S. operations, was unleashing explosive charges against the company. Hackbirth, 60, says he was fired in February for refusing to water down safety, health, and environmental standards at the Cleveland-based unit—under orders from headquarters. Hackbirth says he was against saving money by loosening the company's safety and other standards but adds that, to his knowledge, Alcan's U.S. unit never violated the law. He says he will sue for wrongful dismissal on May 15 if Alcan doesn't thoroughly investigate the matter. A spokesman in Montreal says the company looked into the charges and found they have "no basis in fact."

CLOSING BELL

BAD CONNECTION

Judge Harold Greene's decision on Apr. 28 to let the Baby Bells provide long-distance service to their cellular customers is ringing hollow. At first, expectations of vast new revenues for the Bells boosted their stocks. But the ruling is so narrow—it only lets the telcos resell certain long-distance services from other carriers—that gains may be small. The decision mainly shows "how much we need [new] telecom legislation," says Bell Atlantic General Counsel Jim Young.



*AMERITECH, BELL ATLANTIC, BELLSOUTH, NYNEX, PACIFIC TELESIS, US WEST, SBC COMMUNICATIONS

DATA: BLOOMBERG FINANCIAL MARKETS

FORMAT WARS: THE SAGA CONTINUES

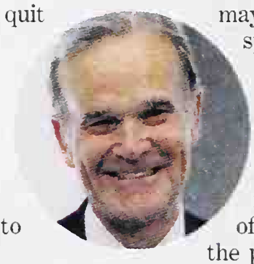
ANOTHER BATTLE IN THE WAR over electronics standards. Early this year, Toshiba and Time Warner declared victory for their digital video disks (DVD) technology—a format for playing movies and music on compact disks. The duo signed up powerful Hollywood studios and consumer-electronics companies to back the standard. Now, Sony and Philips have countered with a high-density CD format that holds reams of video, sound, and text—and unlike its rival, it's erasable. Sony and Philips are pitching their disks largely as replacements for CD-ROMs used in personal computers. But PC companies are urging the two sides to come up with a single standard.

ALICIA MUNNELL, FED GOVERNOR?

TREASURY ECONOMIST ALICIA Munnell, a 20-year veteran of the Federal Reserve, is emerging as the front-runner to replace retired Fed Governor John LaWare. While the White House maintains that no decision has been made, Munnell, 52, has the backing of Treasury Secretary Robert Rubin and National Economic Council chief Laura D'Andrea Tyson. As research director at the Boston Fed, Munnell wrote a 1992 report on racial bias in mortgage lending that discomfited some senior Fed officials. GOP appointees, who dominate the central bank, may not like her economic views much better: Munnell doesn't share their dedication to inflation fighting.

HEADLINER: CHARLES SANDERS

HIS HAT IS IN A RING OF FIRE



Can an urbane, soft-spoken executive unseat North Carolina Senator Jesse Helms? On May 1, Charles Sanders quit his job to run against the 23-year veteran. His pitch: "I'm neither conservative, nor liberal, nor ideological. I know how to solve problems."

The Democrat, 63, has some résumé: A cardiologist, he was in the Air Force Medical Corps and once ran Massachusetts General Hospital. For the past six years, he has been chairman of the U.S. arm of Britain's Glaxo Holdings PLC in North Carolina. His brother, Judge Barefoot Sanders of U.S. District Court in Dallas, is a forme aide to Lyndon Johnson.

But the vitriolic Helm may find some soft spots to attack. Sanders, a Dalla native, has bee in North Carol na just since 1989 and has never held publi office. If he wins the primary, he'll have to withstand Helms's strident campaigning. In 1990, Helms ads played off blacks against whites on af firmative action. Sanders says he finds negative cam paigning "abhorrent," but adds: "Who knows what you'll do when they start calling you names?"

By Joseph Web

TIME-SHARES FOR CORPORATE JETS

CANADA'S BOMBARDIER IS going direct to the customer to expand its sales in the business-jet market. On May 3, it linked up with American Airlines' parent company to announce a plan to market Bombardier-made Learjets and Challengers to corporations for use on a time-share basis. Buying a fraction of a plane will entitle each customer to access to an entire fleet of planes. The program, called Business JetSolutions, is being sold as a way to lower customers' costs. Overall, the business-jet market is expanding by 15% annually.

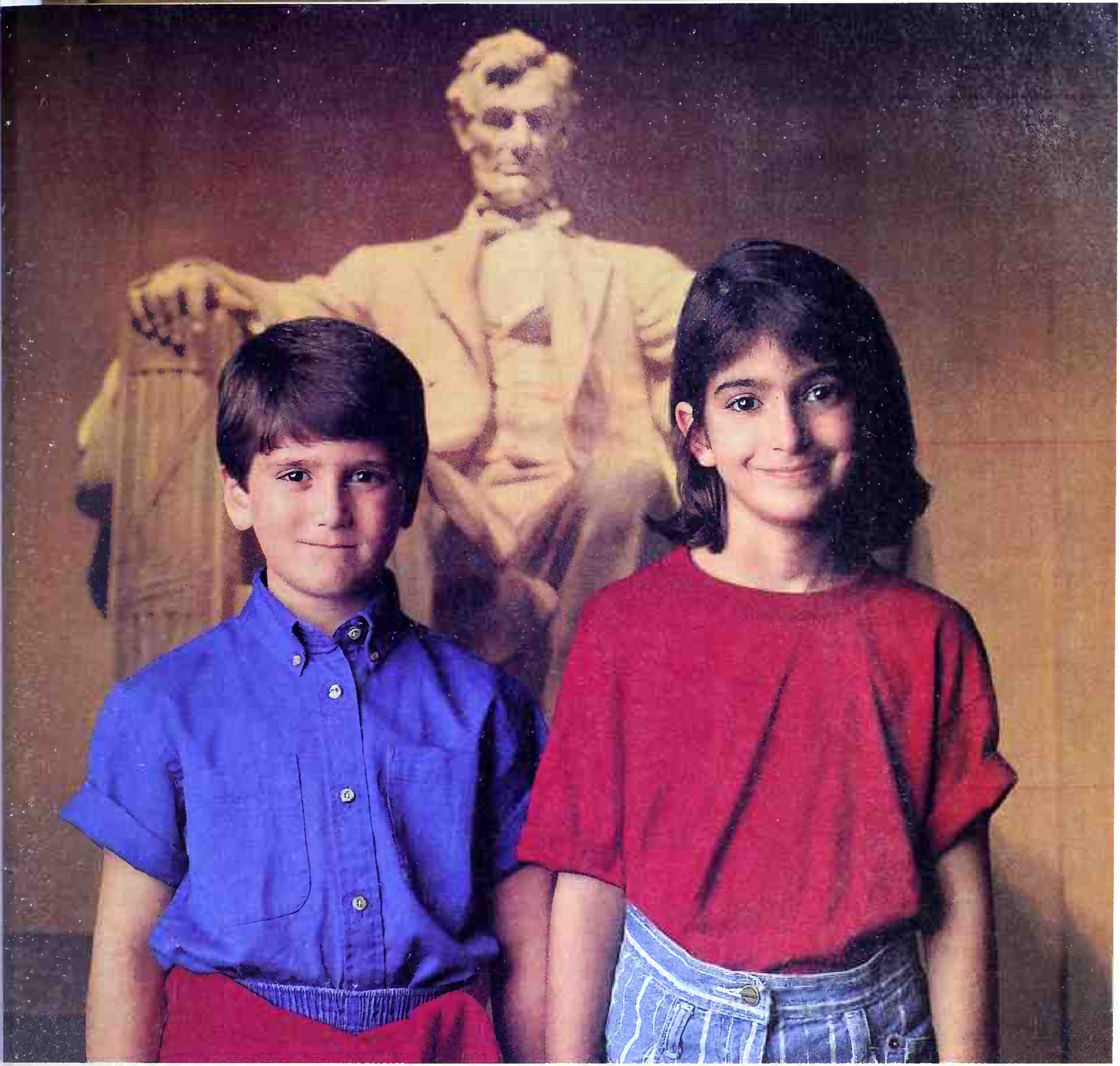
MOBIL SWINGS THE AX AGAIN

MORE JOB CUTS IN THE OIL industry: Mobil Oil, the nation's second-largest oil company, plans to slash 9% of workforce, or 4,700 employ worldwide, by the seco quarter of 1996. The comp will take a $300 million cha in the second quarter as a sult of the restructuring. cio Noto, Mobil's chairman, pects a $1.05 billion ann savings starting in 1996 fr the downsizing, primarily support staff in the U.S. a overseas. Before the curr cuts, Mobil already h slashed 10,100 jobs, or 17% its workforce, since 1991.

ET CETERA . . .

- Sweet revenge: Maur Saatchi's new ad agency w British Airways' account
- W. R. Grace's new CEO Albert Costello, ex-CEO American Cyanamid.
- The first 10 of 300 a works that IBM is auction went for $2 million.
- General Electric said Jack Welch had success angioplasty surgery on Ma

PHOTOGRAPH BY [illegible] CHARTS BY ROB DOYLE/BW



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Vashington Outlook

ITED BY OWEN ULLMANN

EDICARE: NOW IT’S THE GOP’S URN TO SQUIRM

Republicans thought they had inoculated themselves from
political trouble with the powerful senior-citizens lobby by
pledging last fall to keep budget-cutting knives away
m Social Security. Too bad they forgot to include Medicare.
The government’s $175 billion health-care program for 37 mil-
ı elderly has replaced Social Security as the Democrats’
e-fire political weapon. With dreadful timing, the GOP began
king of curbing Medicare’s growth by $300 billion over sev-
years just weeks after the House passed $345 billion in tax
s that will mostly help the top 12% of U.S. taxpayers.

Gleeful Democrats claim the Medi-
e dilemma lays bare the contradic-
ns that have existed all along in the
Contract With America: You can’t
ance the budget, cut taxes, and still
tect popular entitlements from major
luctions. That’s particularly true for
dicare, the largest pot of available
lget-cutting funds now that the Re-
licans have put both Social Security
l Pentagon spending off-limits. An-
er complication: Medicare officials
Apr. 3 warned that the program
ıld go bankrupt by 2002. So it’s no
nder Republicans are begging Presi-
ıt Clinton for bipartisan negotiations to repair the pro-
ım’s finances—and GOP budget-balancing hopes.

LL CONFUSION MODE.” The likelihood of a quick compromise
l rescue? Nil. With the Republicans in disarray, the Demo-
ts don’t want them to stop squirming—at least not yet.
ıis is going to be the big political issue of the year,” predicts
rman J. Ornstein of the American Enterprise Institute.
ncedes a GOP senator: “It’s a very volatile and exploitable is-
and a loser for the Republicans.”

That does not bode well for solving Medicare’s big structu-
problem—costs that soar 10% a year. And panicked Re-
licans can’t agree on a cure. House Speaker Newt Gingrich (R-Ga.) on Apr. 28 promised not to use Medicare savings to balance the budget. Meanwhile, the Senate and House Budget Committee chairmen plan to do the opposite. “They’re in full confusion mode,” says one health-industry lobbyist.

The temptation at the White House is to sit back and enjoy the GOP’s plight. But Clintonites risk a backlash if they put smart politics above good policy. Advocates of seniors worry about Medicare’s insolvency and will be leaning on the Democrats to rescue the program. “The idea that Medicare should be used for other purposes is a mistake,” says Stanford G. Ross, a Democratic trustee of the Social Security funds. Solving Medicare’s shortfall “is going to take bipartisanship and a mechanism to fix the system in a way that gives both parties credit.”

GINGRICH: *Are budget cuts on hold?*

The answer may be a commission similar to the 1983 group that saved Social Security from bankruptcy. That panel grew out of a similar firestorm—Democrats had assailed President Reagan for trying to cut old folks’ pensions in 1981—and provided political cover for both parties to fix Social Security.

Senate Majority Leader Bob Dole (R-Kan.), who supports a commission, wants to solve the problem quickly so it won’t mar his 1996 Presidential campaign. But the White House is insisting that reform of private-sector health care—which the GOP scuttled last year—be linked to any Medicare repairs.

That means an ambitious, long-term fix can’t be completed until 1996, maybe even past the election. In the short term, modest cuts and reforms, such as spurring the use of managed care, must be agreed upon so a budget can be crafted. With the prospect of millions of seniors angry at Washington for playing politics with their benefits, doing nothing is just too risky.

By Paul Magnusson, with Richard S. Dunham and Susan B. Garland

CAPITAL WRAPUP

AMPAIGN TUSSLE

Fireworks may soon fly between
wo old rivals inside the White House.
nsiders say Mickey Kantor is willing
step down as U.S. Trade Repre-
entative to take a top job in Presi-
ent Clinton’s reelection campaign.
ut Kantor, who chaired the Presi-
ent’s ’92 campaign, faces opposition
om aides who bristle at what they
all his autocratic style. They’re push-
ıg Presidential aide Eli J. Segal, an-
ther top ’92 campaign hand who of-
en sparred with Kantor.

INSURING BANK REFORM?

► House Banking Committee Chairman Jim Leach (R-Iowa) may have difficulty speeding passage of Glass-Steagall banking reform. Word was that Leach had struck a deal with Commerce Committee Chairman Thomas J. Bliley Jr. (R-Va.) to keep the bill clean of controversial provisions about bank sales of insurance. But sources say Bliley now wants the bill to address banks’ insurance powers, a move that could bog the measure down in bitter debate.

BUDGET SPAT

► The White House science office is in the thick of an Administration fight over whether every federal agency must cut its budget by the same percentage. The science advisers say that large departments with huge administrative overhead can trim bureaucracies more easily than the thinly staffed National Science Foundation, which spends over 90% of its $2 billion budget on grants. But most departments don’t want any one agency to get special treatment.

CHARLES TASNADI/AP/WIDE WORLD

CHINA

THE GLOVES ARE COMING OFF IN CHINA

President Jiang's crackdown on corruption could unleash an all-out power struggle

With Deng Xiaoping near death, Chinese President Jiang Zemin is looking for every opportunity to boost his stature. What better way than under the guise of a popular cause like cracking down on corruption? On Apr. 27, Jiang ousted a top rival, Beijing party boss Chen Xitong, who is being held responsible for suspect deals made by city officials. That came just weeks after the suicides of two officials, including a Beijing vice-mayor, who were targeted in fraud probes. Before that, the top executive at a Beijing steel plant was arrested. Now, Chinese sources say, at least 100 other city officials have been detained or arrested. "We are going to see more," says Huan Guocang, vice-president and senior economist at J. P. Morgan in Hong Kong. "It won't stop here."

Even while the 90-year-old Deng lingers on, the power struggle to succeed him is breaking out in earnest. Indeed, not since the student protests in 1989 has Chinese politics been racked by such tumult. Jiang, 68, hopes that cleaning out some corrupt officials will win support among ordinary citizens. Beijing locals are especially fed up with officials using their positions to enrich themselves and their families. Through these purges, Jiang is signaling opponents in the cities and provinces that none of them is safe. "Almost everyone has a skeleton," says one diplomat in Hong Kong.

It's a dangerous strategy. If Jiang pulls down many bigwigs, he could trigger a backlash among some powerful players. "If he pushes too hard, he'll make many enemies," says Tai Ming Cheung, a China analyst at Kim Eng Securities (Hong Kong) Ltd. Many Beijing leaders are also upset about Jiang's attempts to promote his "Shanghai clique" to positions of power within the capital. Jiang once served as Shanghai mayor and built a strong power base there. Moreover, the corrup issue cuts both ways. With so m government officials engaged in b ness activities, the trail could easily to embarrassing targets in Jiang's ca "If you use corruption to get at p ple, it's a real can of worms," say Western diplomat in Hong Kong.

As this power struggle sumes China's leaders, nomic reforms are floun ing. Jiang is more interes in maintaining social stab than forging ahead with initiatives. In recent wee he and his aides have sou to reassure the country's million industrial workers they will remain the "m ters" of the nation. The phasis now is more on tecting domestic indust than on attracting the m sive foreign investment ne ed to modernize the count infrastructure. Sorely nee reforms of the banking state sector are stalled. "D ing with things like infla and state-owned enterpr isn't easy at the best of ti and this isn't the best o times," says a Beijing le scholar. "We can expect nomic reform to further sl

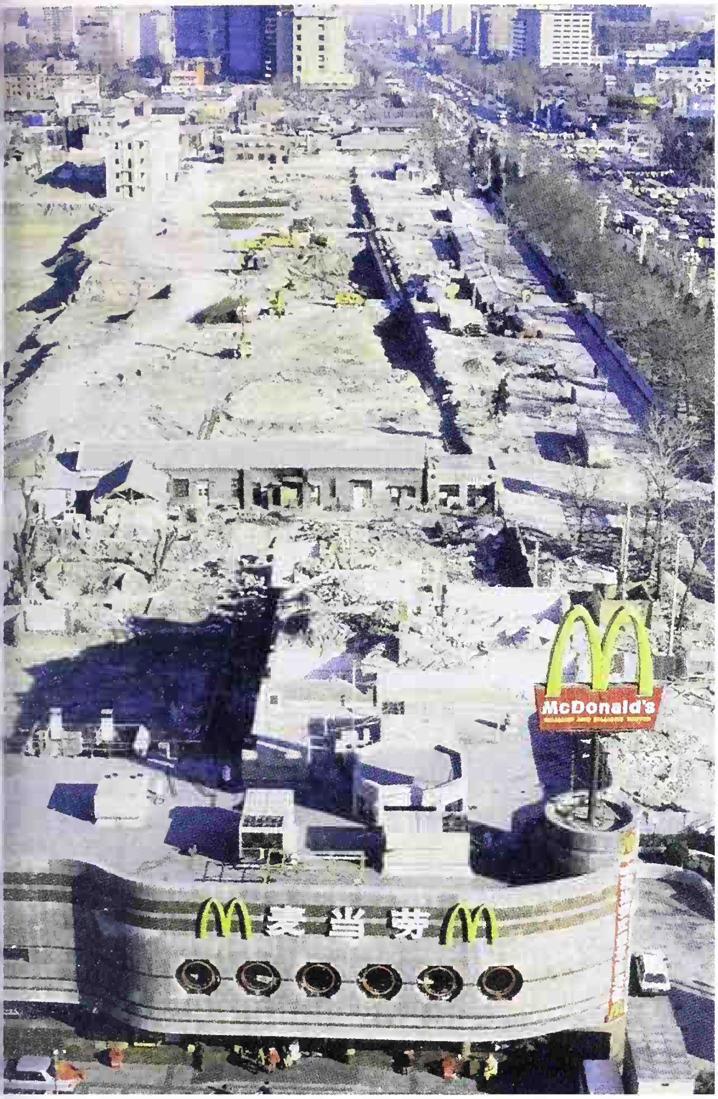
LIGHTWEIGHT. It's not surp ing that Jiang targeted C Xitong. Chen is an old po cal opponent of Jiang, l considered a lightweight w no future in the post-D era. As a result, Chen's cials often ignored cen government directives, es cially those regarding booming real estate busin That's where Jiang stands find the most ammunit With scores of big proje under construction in Beij analysts expect local offic to stand accused of large-s

Jiang's Agenda

By launching a high-level crackdown against corruption in Beijing, China's President is hoping to consolidate his power base as paramount leader Deng Xiaoping nears death. His goals:

WIN POPULAR SUPPORT	Since Beijing residents are upset about corruption among top city officials, Jiang gains some legitimacy through his purges.
ELIMINATE OPPONENTS	By ousting Beijing party boss Chen Xitong, Jiang can clean house in the nation's capital.
REASSESS TIANANMEN	Since Chen was a key backer of using violence against the students in 1989, Jiang may use him as the scapegoat for the bloodbath.
STALL REFORMS	More concerned with preserving stability, Jiang has little interest in pursuing needed but controversial overhaul of the state sector and banking industry.
REIN IN THE PROVINCES	His anticorruption drives send a signal to the more freewheeling provinces that they could be the next target if they don't toe Jiang's line.

DATA: BUSINESS WEEK



MAC ATTACK: LOCAL OFFICIALS TRIED TO OUST McDONALD'S

JEFFREY AARONSON/NETWORK ASPEN

Jiang is sure to find plenty of ammunition in Beijing, where scores of big development projects are under way. Says one Western consultant: "Almost everyone is involved in bribery"

ruption. "Almost everyone is involved bribery, and probably everyone is in- table," says a Beijing-based Western nsultant in the construction industry.

The battle between the central gov- nment and city officials may help ex- in the travails last year of McDon- l's Corp. The fast-food chain made adlines after city officials demanded it cate its central Beijing site—for which Donald's held a 20-year lease—to ke room for a $1.2 billion commercial nplex. But city authorities had signed on the deal without getting approval m the central government. After the Donald's case drew international con- mnation, the central government ervened. Now, it is considering a new, led-down design. Meanwhile, Mc- nald's is still operating at the site.

In the months since the McDonald's se surfaced, the central government s stepped up its crackdown. In Febru- y, a top official from the Hong Kong bsidiary of Shougang, the capital's emier iron and steel company, was tained for alleged "economic crimes" t has yet to be formally charged. At the same time, city officials were interrogated about a Beijing-backed investment scheme that raised $350 million, apparently without central government approval. Many suspect that's why Beijing Vice-Mayor Wang Baosen shot himself on Apr. 4, making him the most senior communist official to commit suicide since the Cultural Revolution, which ended in 1976.

The pressure is mounting outside Beijing, too. Officials in the provinces are getting the message not to take on the central authorities. In April, a former top official from Guizhou Province killed himself, just months after his wife, once the head of the province's investment company, was executed for massive bribe-taking and fraud. Beijing denies the official committed suicide.

SINGLED OUT. The anticorruption campaign could spell trouble for some of China's "princelings," sons and daughters of high officials. Chen's son, Chen Xiaotong, is deputy general manager of Beijing's New Century Hotel. According to Hong Kong reports, he has been detained since last month, allegedly for economic crimes. The well-connected younger Chen is said to be involved in property deals in Beijing. Zhou Beifang, the detained Shougang official, is also a princeling.

The fact that Jiang singled out the elder Chen may go beyond political rivalry. Some believe the President will use Chen's arrest to reassess the Tiananmen Square massacre of June, 1989. Chen, a strong proponent of the crackdown, may take the rap for being the official who passed on inaccurate information about the demonstrations to the central leadership. By making Chen the scapegoat, Jiang could help distance himself from the incident—and gain popular support. That might isolate Premier Li Peng, a Chen ally even more closely associated with the 1989 crackdown.

It remains unclear whether Jiang has strong enough standing within the party to launch a purge aimed at weeding out high-level corruption—and his political foes. Jiang may be acting out of weakness, stirring up a maelstrom that he won't be able to control. Even so, many observers who had written off Jiang are impressed. "I think all of us naysayers who have been pooh-poohing Jiang Zemin as a kind of weak transitional figure may find reason to reassess," says a Western expert in Hong Kong. "He's making a calculated risk, betting that he has got the support to do it at this time."

Jiang's power play is heightening anxiety about China in the outside world. For instance, Southeast Asian nations are increasingly concerned about China's expansionist policies in the South China Sea. More unpredictable behavior is likely to continue. Despite China's impressive economic changes, "the political system is the same as it was 25 years ago," says Carl Goldstein, vice-president of Washington-based consultants International Strategic Advisors. That's why for now, all eyes are on Jiang Zemin and his anticorruption bandwagon.

By Joyce Barnathan in Hong Kong, with bureau reports

MEXICO

IS THIS TOUGH LOVE —OR A SAVAGE CRACKDOWN?

Well, both. Zedillo's recovery plan is taking hold and hammering ordinary Mexicans

STEPHEN FERRY/GAMMA-LIAISON

Fearing violence, Mexico's government-backed labor unions canceled their traditional May Day parade. But that didn't stop 70,000 independent union workers from thronging the Zócalo, the main plaza in Mexico City, to protest massive job losses caused by Mexico's financial collapse. There, they spray-painted the colonial-era National Palace with slogans such as "The fatherland is for sale."

Such ferment isn't scaring off foreign investors. In fact, Mexico City is a preferred destination these days for executives of such phone giants as AT&T, MCI, and GTE, which are racing to enter Mexico's newly opened market. Energy companies are also eyeing Mexico, intrigued by proposed rule changes in the long-closed petroleum industry. "Mexico still has explosive growth ahead of it," says Dan Crawford, chief operating officer of Avantel, a joint venture of MCI and Banamex, Mexico's largest bank.

Sharply divergent attitudes toward Mexico are typical these days, as President Ernesto Zedillo Ponce de León's economic-recovery program nears the end of its second month. Ordinary workers and the proprietors of small and midsize enterprises proclaim it an unmitigated disaster. But Mexican exporters, senior Mexican and American officials, and financiers contend that the country is making solid progress.

BUSY TRADERS The *bolsa* has bounced back to the point that some Wall Street analysts think it may now be overpriced

Both are right. Zedillo's harsh measures are doing their job. He has restored confidence in the financial markets. The peso has stabilized (chart). The *bolsa* has recovered some of its losses. And Mexico has been smoothly meeting its estimated $29 billion in foreign debt payments for 1995. More importantly, the devaluation of the peso has stimulated exports, helping to shift Mexico's trade account to a slight surplus for the first quarter, compared with a $4.3 billion deficit a year ago. "We have always said it would be a long road, but a number of indicators have turned favorably in the last two months," says Treasury Under Secretary Lawrence H. Summers, th Clinton Administration point man for Mexico.

But for Main Stree Mexico, Zedillo's austerit measures, which includ tight credit, steep ta hikes, and boosts in energy prices, are killers. Th government is predictin a 2% decline in economi output this year, and th more pessimistic privat forecasters expect a 5 contraction. "Markets ten to anticipate, and obviously they are ahead of th rest of the economy," say Finance Secretary Guillermo Ortiz. "In the rea economy, in terms of bus ness activity and employment, we have no touched bottom yet," h told BUSINESS WEEK.

Indeed, businesses an workers are being h hard. Store aisles are deserted. Construction site are lifeless. An estimate half-million workers hav already lost their jobs th year, and Ortiz warn that the biggest wave o layoffs is yet to com probably in July and August. The bright side i exports, which were u 32%, to about $18 billion, in the fir quarter. Exports from the Mexican factories of America's Big Three carmakers jumped 66%.

RICH GET RICHER. The crisis is apt t lead to major restructuring of the Mexican economy. Struggling small bank will be snapped up by larger domest or foreign institutions. Likewise, man of the big export-oriented manufacturer will wind up in a position to acquir smaller competitors. That risks strengthening the near-monopoly positions o some companies and skewing wealt distribution even further.

he picture is par-
larly grim outside
export sector.
ne D. Berebichez,
eral director of
notek, a construc-
outfit, says he is
he verge of clos-
his company,
ch has gone from
mployees to just
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months or six
s," moans Bere-
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any hope of
rging from this
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hings are much
se for ordinary
icans. Marching
May Day were
olfo Suro Garabi-
4, and his wife, Teresa Ponce, 63.
and his four sons all lost their jobs
rivers for a city bus company that
government shut down for financial
nanagement. "We want the resig-
on of Zedillo," says Suro. "He has
royed Mexico."

YMENTS BUBBLE." Zedillo and his
s contend that Mexicans must go
ugh such pain to return to stable
vth. The question is how long it will
efore a recovery takes hold. Many
ysts expect modest growth to re-
e in 1996 or even earlier, but first
e will be some tough challenges.
n mid-July to mid-August, Mexico
s a "payments bubble" of $6.2 billion
ort-term debt. Although the second
of the $20 billion U.S.
out package will be-
e available on July 1,
huge payout could put
pressure on the peso.
here are also nagging
bts about Mexico's
ker banks. Bad loans
soaring, reaching 10%
he nearly $70 billion
tanding. Seven banks
e already borrowed a
l of 6.5 billion pesos—
e than $1 billion—from
government to boost
r capital to minimum
ls. Others are shopping
nd for buyers. William
Truscott, a portfolio
ager at New York-based Scudder, Stevens & Clark Inc., worries that problem loans may keep banks from extending credit, hurting the chances for a 1996 recovery.

Wall Street analysts think that Mexican stocks may now be overpriced, given the severity of the country's remaining problems. Lawrence D. Krohn, a Latin America analyst at Union Bank of Switzerland in New York, thinks the current financial rally was spurred mainly by Mexico's showing that it could meet its debt payments. "There could be a correction in all the markets," he warns, as investors start to focus on the real economy.

But even if there are some zigs and zags ahead, the crisis is forcing Mexico to move in ways that should pay off in the long term. With no cash to spare, Mexico's government has pushed through legislation allowing more privatizations and greater foreign and domestic private investment. The most tantalizing initiative was the surprise announcement that private companies, including foreign ones, would be allowed to build and operate natural-gas pipelines. That had been the exclusive right of Petróleos Mexicanos (Pemex), the state-run oil monopoly. Officials hope the move will attract financing for several major electricity plants and petrochemical privatizations. "We are prepared to move as soon as they are," says Rodney L. Gray Houston's Enron Corp.

At the same time that foreign investors are finding Mexico more welcoming, more Mexican companies are cracking new markets north of the border. Ilusión, a lingerie maker, has just sent its first shipment, worth $40,000, to a Los Angeles distributor that formerly favored garments from Taiwan. The company is negotiating much bigger contracts with several potential American clients, including Kmart Corp. "The devaluation is what made us think about exporting," says Benjamín Romano, one of five brothers who run the company.

But such upbeat tales are still the exception in an economic landscape dominated by layoffs and shutdowns. The question is whether exports and investments will prove to be strong enough medicine to keep the Mexican economy from plunging into the sort of malaise that could do serious damage to the country's social fabric. Zedillo's entire program hinges on just how fast the cure takes hold.

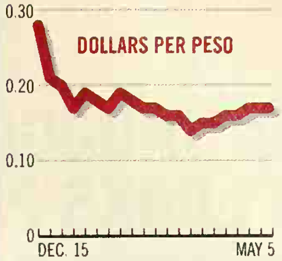
By Geri Smith and Elisabeth Malkin in Mexico City, with Dean Foust in Washington and Stanley Reed in New York

HANGING ON

With credit tight, prices soaring, and hundreds of thousands of jobs already gone, the peso's recent rebound won't mean much to Mexicans struggling to survive

PETER STONE/BLACK STAR

AN UPTICK FOR THE PESO



DATA: BLOOMBERG FINANCIAL MARKETS

MEXICO IS MAKING PROGRESS...	...BUT MANY CHALLENGES REMAIN
•The trade account has turned positive, easing the foreign payments crunch.	•The economy, especially retailing and construction, is moribund.
•$16 billion of $29 billion in *tesobonos* has been retired.	•Monthly inflation–about 8% in April–is still high.
•The peso has stabilized at about six to the dollar. Interest rates have fallen.	•The banking system remains shaky, with problem loans rising.
•The bolsa has risen about 30% from its March lows.	•Unemployment is soaring, threatening social unrest

DATA: BUSINESS WEEK, BANK OF MEXICO

BANKING

ON SECOND THOUGHT, WARBURG LOOKS PRETTY TASTY

Why SBC may buy the investment bank after denying it was interested just months ago

Back in January, Marcel Ospel, head of international banking at Swiss Bank Corp., was asked if his bank would consider bidding for S. G. Warburg Group PLC, whose attempted merger with Morgan Stanley & Co. had just collapsed. Ospel's answer was clear: "I would not want to expose shareholders, and more important, my staff, to a takeover of this magnitude."

Really, Marcel? On May 2, SBC admitted it is talking with Warburg about buying out the blue-chip British firm's securities and investment banking business for an estimated $1.3 billion. That would be SBC's third big acquisition in four years, following the purchase of options trader O'Connor Partnerships and asset manager Brinson Partners Inc. Buying Warburg would certainly weigh down SBC profits in the short term. And absorbing another culture would be one more headache for the Swiss, who are only now learning how to live with the brash Chicago traders from O'Connor.

DASHED HOPES. SBC isn't talking, but it's clear three crucial factors account for the change of heart. First, in one swoop, SBC could claim the title of Europe's preeminent investment bank and the world's largest underwriter of equities. Second, the price is right—roughly book value, as opposed to Deutsche Bank's 1987 purchase of Morgan Grenfell, which went for 2.5 times book. Third, if SBC lands Warburg, it avoids being outflanked by rivals who might want the British firm for themselves. Even now, a bidding war could pull in U.S. competitors such as Smith Barney Inc. or Merrill Lynch & Co., both said to be interested bystanders.

For its part, Warburg, whose global aspirations are dashed without a merger, must halt an internal crisis. Key executives have been leaving in droves: On May 2, in the latest defection, the four execs who led Warburg's European equities business decamped to Morgan Grenfell. Warburg has had to cut back operations in the U.S. and shutter most of its Eurobond operations. So Chief Executive Sir David Scholey's vow to remain independent now looks hollow. "It was difficult for Warburg after the Morgan Stanley fiasco," says a competing investment banker. "It's tough to carry on like nothing happened."

JAMES MORGAN TIMES NEWSPAPERS LTD

SCHOLEY: *Badly in need of a partner*

SBC's challenge is to grab Warburg fast enough to prevent any more decline in the franchise's value. SBC doesn't want Warburg's Mercury Asset Management division, which would duplicate its own in-house business. Instead, it wants Warburg's investment banking clients, including chemical giant ICI, Britain's General Electric, and pharmaceutical maker Glaxo/Wellcome PLC.

Capturing Warburg relatively intact would give SBC a leading role in European mergers and acquisitions and a strong London base for placing equ and debt globally. Those are critical e ments that have eluded SBC in its effo to become a full-service provider to c porate clients worldwide. Despite lea ing some high-profile corporate finar deals in London in recent years, s "still ranks as a second-rate operati there," says a former SBC exec. Besid being the top equities issuer, SBC/Warburg combine would be a for in foreign exchange and Eurobonc And SBC's $190 billion in assets wou certainly provide the capital Warbu has needed for so long.

It's not an ideal fit, though. Ev with Warburg, SBC still lacks the dist bution network it needs to tap the b U.S. market for privatizations and c porate debt issues. And though it w expand its foothold in Asia, SBC w remain a second-tier player there, tc

TOO FAR. Explaining the bid back hor might not be so easy, either. SBC's ori inal strategy was to build investme banking clout by relying on O'Conno options trading expertise. Instead, tra ing losses drove SBC profits down 40 last year, to 1989 levels. As a resu says Bank Julius Baer & Co. analy Hans Kaufmann, SBC is "going to very concerned about earnings dil tion" caused by a prospective Warbu purchase.

But SBC has pursued its dream of i vestment banking dominance too far back down now. If it loses the Warbu deal, it will have to watch Continent rivals like Deutsche Bank and tl Netherlands' ING consolidate their pos tions in London's investment bankir world. Given SBC's penchant for inn vation and aggressive behavior in r cent years, it's likely that Wall Stre and the City will be hearing a lot mo from the Swiss.

By Bill Javetski in Paris, with Pa la Dwyer in London

> "It was difficult for Warburg after the Morgan Stanley fiasco. It's tough to carry on like nothing happened"

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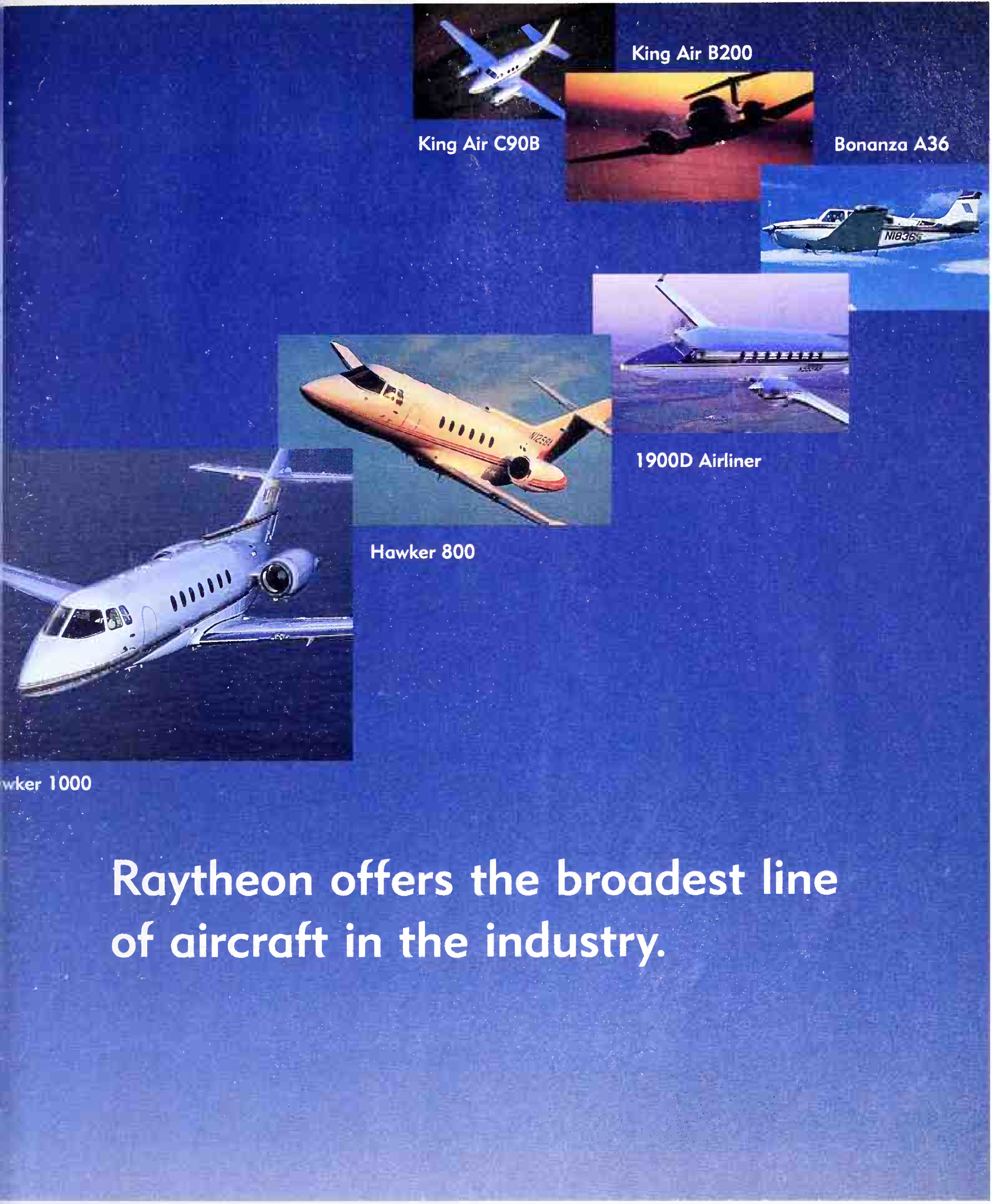
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EXPECT GREAT THINGS

International Outlook

EDITED BY STANLEY REED

THE EMBARGO AGAINST IRAN: AMERICA SLAMS A WINDOW SHUT

At first glance, President Bill Clinton's decision to slap a total trade embargo on Iran sounds reasonable, even admirable. After all, why not push one of the world's most unpalatable regimes up against the wall? Many suspect an Iranian hand in the bloody 1994 bombing of a Jewish cultural center in Argentina. And there is mounting evidence that Tehran has been secretly working on a nuclear weapons program, which it aims to bolster by purchasing Russian nuclear technology.

But the U.S. government's tough actions may not be the most effective way of dealing with Iran—they could even backfire dangerously. Indeed, the U.S. could wind up looking silly trying to lead an initiative no one follows.

Clinton argues that ending the $4 billion a year in purchases of Iranian oil by such U.S. companies as Exxon Corp. and Mobil Oil Corp. and stopping $300 million in U.S. exports will help convince European and Asian allies that Washington means business. But getting key nations such as Japan, Germany, and France to sign on is going to be next to impossible. Germany, which sold Iran almost $2 billion in goods last year, is expressing doubts—as are Canada, France, and Britain. "We don't believe that a trade embargo is the appropriate instrument for influencing Iran," says German Economy Minister Günther Rexrodt.

SHUTOUT. The Europeans, and even some within the Clinton Administration, argue that constructively engaging the Iranians would have a better shot at changing Iranian behavior than an uncompromising shutout. They point out that North Korea, whose regime is at least as erratic and vicious as Iran's, has agreed to moderate its nuclear program thanks to creative American diplomacy. And Washington has kept dealing with the Chinese communist regime on trade and human rights issues, even after the international outcry over the Tiananmen Square massacre. With Iran, though, the Clint
policy is all stick and no carrot. And that could well exac
bate Iranian paranoia and belligerence.

Moreover, by isolating Iran instead of engaging it, the U.
may be discrediting members of Iran's governing elite w
have been arguing behind the scenes for normalization of re
tions with Washington. Iran's recent willingness to choose C
noco, rather than a French competitor, to develop a major
field probably demonstrated a political consensus in Iran
start dealing with Americans for the first time since the 19
hostage crisis. Such a deal might have given the U.S. a pote
tially valuable window into Iran's murky wor
ings. Trade, as former Assistant Secretary
State Richard W. Murphy notes, "is one way
getting a better feel for what a country is
to and where it is going. I don't feel we have
good fix on what's going on in Iran."

OIL WORKERS: *Buyers aplenty*

And the Iranian economy will hardly be
fected by Clinton's order, which is expected
end most American trade with Iran, includi
that of foreign subsidiaries. Within a fe
months, according to oil industry expert
Iran will be able to find new buyers of i
crude. And Iran will also be able to swit
over to new suppliers of oil field equipme
which now accounts for most U.S. exports. "The U.S. is
unique anymore," says John H. Lichtblau, chairman of t
New York-based Petroleum Industry Research Foundati
"We have good equipment, but so do others."

Clinton's order is likely to head off even harsher legislati
proposed by Senator Alfonse M. D'Amato (R-N.Y.). B
that's only a small benefit. The likelihood is that Clinton is g
ing to ratchet up tension with Iran, hobble American comp
nies, and get far out of step with America's allies for
achievable purpose.

By John Rossant in Ro
with Amy Borrus in Washingt

GLOBAL WRAPUP

SUMMIT IN AMMAN

► A big Middle East economic development summit has been set for Amman, Jordan, next Oct. 29-31. It is supposed to follow up on last year's extravaganza in Casablanca, where there was much talk but few deals. On the agenda will be a $5 billion to $10 billion Middle East development bank, which the Israelis, Jordanians, and Egyptians want and the U.S. supports. But the Europeans think the bank is unnecessary, and the Gulf Arabs don't want to put up the money. Nevertheless, U.S. sources are confident that funding will be lined up from the U.S., Europe, Japan, and regional donors. Joint Jordanian-Israeli projects such as irrigation and hydroelectric schemes for the Jordan Rift Valley may have the inside track for funding because the Palestinian areas are so unstable.

But plans to build a pipeline from Aqaba on the Red Sea to the Dead Sea are also controversial. Many say the $2 billion to $4 billion price tag is too high, and the project will be yet another Middle Eastern white elephant.

WILL THE FRANC TANK?

► The French franc is likely to sag in the weeks after the May 7 presidential election—especially if the victor is Socialist Lionel Jospin. He plans to spend France's way out of 12.2% unemployment. Conservative Jacques Chirac would comfort markets more, yet he's less committed to a strong currency than departing President François Mitterrand. Even former European Union President Jacques Delors has joined other public figures calling for a looser monetary policy.

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OFF THE HOOK
Loucks's restructuring comes none too soon for investors. Now, the CEO's job appears safe

STRATEGIES

SO BAXTER DOES HAVE A PULSE

Cost-cutting is reviving the health-care giant

Mike Hudson has never been a betting man. The 40-year-old general manager of hospital supplier Baxter International Inc. hates financial risks: As a young boy, Hudson watched his father lose the family farm after fire destroyed a harvest and he couldn't pay his debts. But last year, Hudson borrowed $1.3 million to buy 50,000 shares of Baxter. "I never thought I'd take out a loan that big on anything," he says.

Of course, it's tough saying no to the boss—and Baxter's controversial Chairman and CEO Vernon R. Loucks Jr. did not leave Hudson much choice. One of the health-care industry's most chronic underachievers, Baxter in recent years has suffered a steep margin slide, a plunging stock, and criticism over HIV-tainted blood products and its cooperation with the Arab boycott of Israel. Things got so bad that by mid-1993, investors were calling for Loucks's ouster. To keep them at bay, he ordered a major restructuring at the Deerfield (Ill.) company—and to make sure his top managers went along, the embattled CEO urged them to borrow twice their annual compensation to buy stock. "I was looking for help," says Loucks, who doubled his own shares, to 700,000.

So far, it looks as if he got it. A year after 63 managers spent $122.2 million snapping up 4.7 million shares, Baxter's health is returning. After a loss from continuing operations of $268 million in 1993 on sales of $8.9 billion, Baxter's profits jumped to $596 million on sales of $9.3 billion in 1994. And Baxter's operating cash flow soared to $954 million, three times 1993's $292 million (charts).

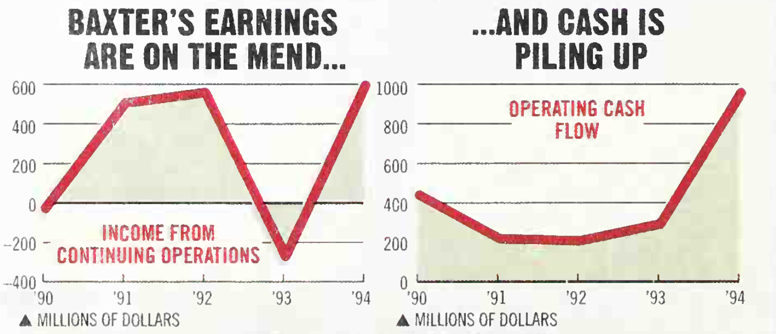
Better still, Baxter's stock, which fell to 22 in late 1993, now trad at 34. Although that's still low Baxter's late 1991 high 40, investor anger h dimmed—and Loucks's j seems safe. "The board h been supportive of Loucks, ten to [Baxter's] detrimen says one big shareholder. "B their patience seems to be pa ing off. He's done a good job

It hasn't been easy. A deca after acquiring American H pital Supply Corp., Baxter s faces big challenges selling AHS's lo margin products, such as medical gow and surgical trays, to hospitals. As co cutting repeatedly hit health-care co panies, Baxter's sales and earnings st nated. Meanwhile, Baxter's lucrati medical specialty business, which mal kidney dialysis machines and cardiov cular products, was booming. Unhap shareholders wanted the company sp but Loucks resisted. His plan: shri costs and boost cash flow in the matu supply market, then use the cash fund specialty-unit growth.

OLD WOUNDS. Since 1993, Loucks h pared Baxter's workforce 5%, to 53,5 and slashed management. Most imp tant, he has radically altered the medi sales force's operations. Until last ye dozens of salespeople from Baxter's di sions would separately hawk their war to hospitals. Now sales reps work teams. For example, 11-year veteran Ji McGorry, one of 180 account manage oversees relations with 10 hospitals North Carolina. When buyers need som thing, they deal directly with him.

Still, Baxter hasn't fully healed t wounds its old system caused with c tomers. Although Joan Ralph, a purcha ing executive at Good Samaritan Hos tal in Downers Grove, Ill., finds Baxt easier to deal with, sh not convinced it h eliminated other pro lems, such as constant running out of suppli and charging her high prices than neighbori hospitals. "It's a tru issue," Ralph says. still have memories the past, and they do go away overnight."

With cash flow n



OATA. COMPANY REPORTS, BLOOMBERG FINANCIAL MARKETS

PHOTOGRAPH BY MICHAEL L. ABRAMSON CHARTS BY ERIC HOFFMANN

Old Tradition

tor Kozeny
nd Manager
New Thinking

HE CZECH REPUBLIC ['chek ri'pablik] • Premier Václav Klaus; pulation of 10,5 million; stable government; parliamentary democracy; lanced budget; GDP 2,5%; stable exchange rate 1 USD = 27,8 CZK; low lation 10%; low unemployment 3,1%; high foreign currency reserves SD 8,4 billion; low foreign debt USD 9,1 billion; average monthly salary 00 CZK; PSE market capitalization USD 12,4 billion; 80% economy in ivate hands; skilled and educated work-force; convertible currency; free patriation of profits; tax treaties: U.S.A., Netherlands, Cyprus and others History: from 5th to 6th century arrival of Czech tribes; from 9th to 10th ntury establishment of the Czech state, 1355 Charles IV, Roman nperor and King of Bohemia; 1348 Charles University of Prague founded; 18 proclamation of Czechoslovakia; 1968 Prague Spring; 1969 proclaation of the Czech Republic; 1977 Charter 77; 1989 Velvet Revolution, ginning of democratic changes in society; 1990 the Czech and Slovak derative Republic; 1990 establishment of HC&C, The Bill of Rights; 92 first wave of privatization; 1993 dissolution of Czechoslovakia d establishment of the independent Czech Republic; 1994 signature Partnership for Peace agreement; affiliated member of EU; comple-n of second wave of privatization; municipal elections confirmed ech citizens strong support for market economy in November 1994.

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Harvard Funds

The Czech Republic

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king, sales rep McGorry is pushing customers such as Duke University Medical Center to pay faster. By cutting bureaucracy from the invoice process and offering better prices if Duke pays sooner, McGorry has cut the center's "days receivable"—the outstanding goods that haven't yet been paid for—by 30 days, to 8. Controls on inventory are also being tightened. By scrapping redundant products and installing information-management systems to better coordinate shipments to its big hospital clients, Baxter has reduced inventories 12%, to 88 days. By 1998, Loucks is aiming for 50 days.

If he can achieve such gains, analysts expect Baxter to generate operating cash flow of roughly $1 billion a year. Loucks will spend much of that expanding Baxter's high-margin global medical specialty business. It's easy to see why. While Baxter's U.S. hospital-products business, with 1994 sales of $5.7 billion, is growing at a 3% rate, its medical specialty sales, which hit $3.6 billion last year, are growing around 8% annually and even faster in Latin America, the Far East, and Eastern Europe. The surging unit—specialty products grew 17% in 1995's first quarter—now accounts for 38% of Baxter's sales and 61% of earnings. "That's really our oyster," says Loucks.

Still, Loucks's strategy is not without risk. Kenneth Abramowitz, health-care analyst with Sanford C. Bernstein & Co., warns that Baxter is playing catch-up overseas. And Baxter's new-produc pipeline is thin. A home-dialysis machine introduced late last year should hi sales of $100 million in 1995, but a device that pumps blood through th heart, though approved in Europe, isn' expected to be O.K.'d in the U.S. unti 1998. And Baxter's new blood substitute for use in emergency rooms—potentially a $3 billion market—faces sti competition. "In the next three to fiv years, they're going to need some significant additions to their product line, says CS First Boston analyst Ameli McDonald. Loucks may have won himself some breathing room, but Baxter' recovery is far from assured.

By Ron Stodghill II in Deerfield, Il

STRATEGIES

THE UNDERSEA WORLD OF SHELL OIL

It's discovering vast reserves in the Gulf of Mexico

Just a few years ago, Shell Oil Co. looked like it was running on fumes. A string of dry U.S. wells and curbs on overseas exploration were draining its oil reserves. After missing out on Prudhoe Bay and coming a cropper in offshore Alaska, Shell saw its oil production begin to slide rapidly: From 531,000 barrels a day in 1988, it pumped out just 398,000 a day last year. As executives began to fear for its future, even Shell's choice for a last stand, the Gulf of Mexico, seemed ill-fated. From its heyday in the early 1970s, production had declined so sharply by 1992 that oilmen derided the gulf as the "Dead Sea."

BLACK GOLD: *Gulf drilling could be a $1 billion-a-year bonanza*

The gulf's treacherous depths had already knocked one company, Placid Oil, temporarily into Chapter 11 bankruptcy, and oil giants such as Texaco and Mobil had fled the gulf throughout the 1980s for more promising fields overseas. But restricted to the U.S. by its parent, Royal Dutch/Shell Group, and unable to drill off California or the East Coast because of state restrictions, Shell had no choice but to hunt for oil thousands of feet below the gulf's surface. "From an exploration standpoint, we certainly would have faded away without it," says Robert L. Howard, Shell's recently retired vice-president for domestic operations.

Today, no one worries about Shell fading away—or the gulf's role in U.S. oi production. Thanks to a string of discoveries of huge reserves in the gulf's deep waters and technological advances tha have made it easier and cheaper to ge that oil out, Shell's once bleak fortune have been revived. Since it bega deepwater production last year, th Houston-based company has startled it oil-patch rivals with astonishing report about the oil it has found in the gulf' depths: In its three most advanced projects alone—two more are set to com onstream by 1997—Shell expects to gain an estimate 150,000 bbl. a day of production. That's worth $1 billion annually at current prices of $20.50 a bbl. When i comes to deepwater drilling says Amoco Corp. CEO H Laurance Fuller, "Shell i out in front of the industry.

HOT SPOTS. Indeed, Shell' success has sparked a feverish black-gold rush i the gulf: New players ar rushing to get in, while ol ones scramble to retur With the federal government's annual auction o gulf leases—set for Ma 10—drawing more interes than it has in years, bidding is expected to be furious. Requests for sales kit for the 10-year leases—which are granted for territory up to 200 miles from the U.S shore—are running nearly 20% highe than a year ago. Says analyst Robert W Esser of Cambridge Energy Researc Associates Inc.: "This is going to be on of the most significant exploration ho spots in the world for the next decade.

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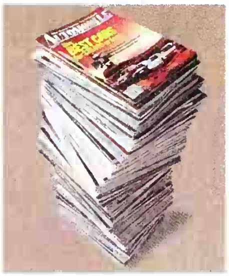

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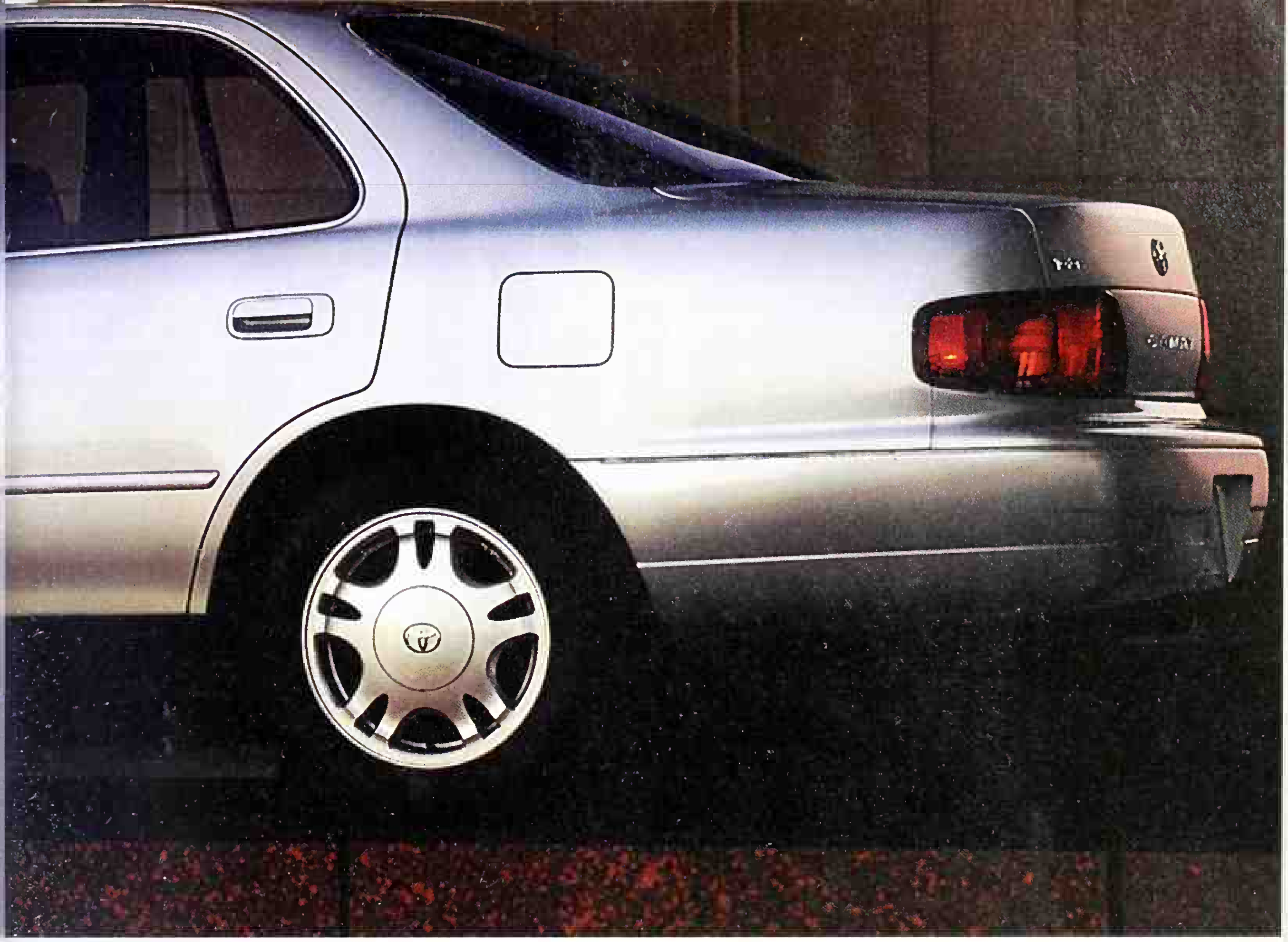

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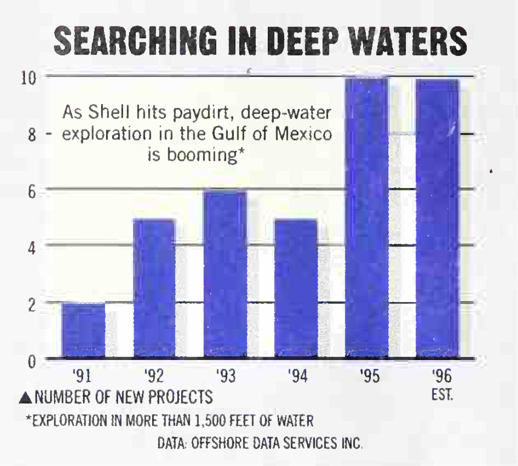
sent others packing, Shell now sits atop the most prized territories in the region. As other majors fled, Shell and a handful of independents hunkered down. By 1989, Shell hit pay dirt. With its discovery of the giant, 700-million-bbl. Mars field, Shell realized the region's potential was far greater than anyone knew. Over the next two years, it quietly assembled a huge collection of deepwater leases—571 in all. Today, Shell holds 30% of the existing leases in the gulf. Thanks to improved exploration techniques it has since pioneered, those leases may hold more oil than even Shell had anticipated. Although the Interior Dept. estimates that the gulf's deepest waters hold around 4 billion bbl. of oil and equivalents, industry sources say those numbers, based on incomplete company reports, may be out of date. Shell CEO Philip J. Carroll believes the figure is more like 8 billion to 15 billion—greater than Alaska's Prudhoe Bay.



*EXPLORATION IN MORE THAN 1,500 FEET OF WATER

DATA: OFFSHORE DATA SERVICES INC.

Yet for all the potential apparent today, Shell almost couldn't make it in the gulf. In the mid-1980s, plummeting oil prices forced Shell's engineers to rethink how they worked there. Oilmen then believed deep wells would collapse if too much oil was pumped out at once. But the high costs of working in deep water, combined with meager oil prices, made low volumes uneconomic. "It became apparent we needed high-flow-rate wells," says Rich Pattarozzi, Shell's exploration and production manager.

WELLSPRING Shell's success has rivals such as Amoco, Texaco, and Mobil scrambling to plumb idle fields, and the region is attracting a slew of oil-services companies that help lower costs

TROUBLED WATERS. Shell began experimenting with a platform in 1,600 feet of water. By slowly upping the quantities it pumped and by modulating the valves, pipes, and other equipment it used, Shell gradually learned how to boost oil flow. It also developed "modular" components that could be retrieved and reused, bringing down production costs. Its latest twist: using robot vehicles to link deepwater wells to a shared electrical and communications pod.

Unlike the shallower waters of the gulf—where natural gas predominates—the deepwater discoveries have been up to two-thirds oil. That's important because financing for oil development is easier and cheaper to obtain. And the rich flows Shell has attained dramatically improve the profitability of deepwater production. Shell's first deepwater platform cost $1.2 billion and included 32 well slots at an estimated cost of $10 million to $20 million each. Its latest, now in construction, will contain just 24 slots but will deliver twice as much oil.

Shell's perseverance is paying off. Although U.S. offshore wells on average produce just 1,000 bbl. a day, Shell is producing as much as 14,000 bbl. a day in wells at 2,800 feet. The additional production could contribute as much as $1.75 billion annually to operating cash flow by 1998. Nor is Shell alone. On Apr. 3, Enserch Corp. revealed its first deepwater well could start production at 6,000 bbl. a day—far in excess of the 2,500 expected. "It has gotten progressively better and better," says David Biegler, CEO of Dallas-based Enserch.

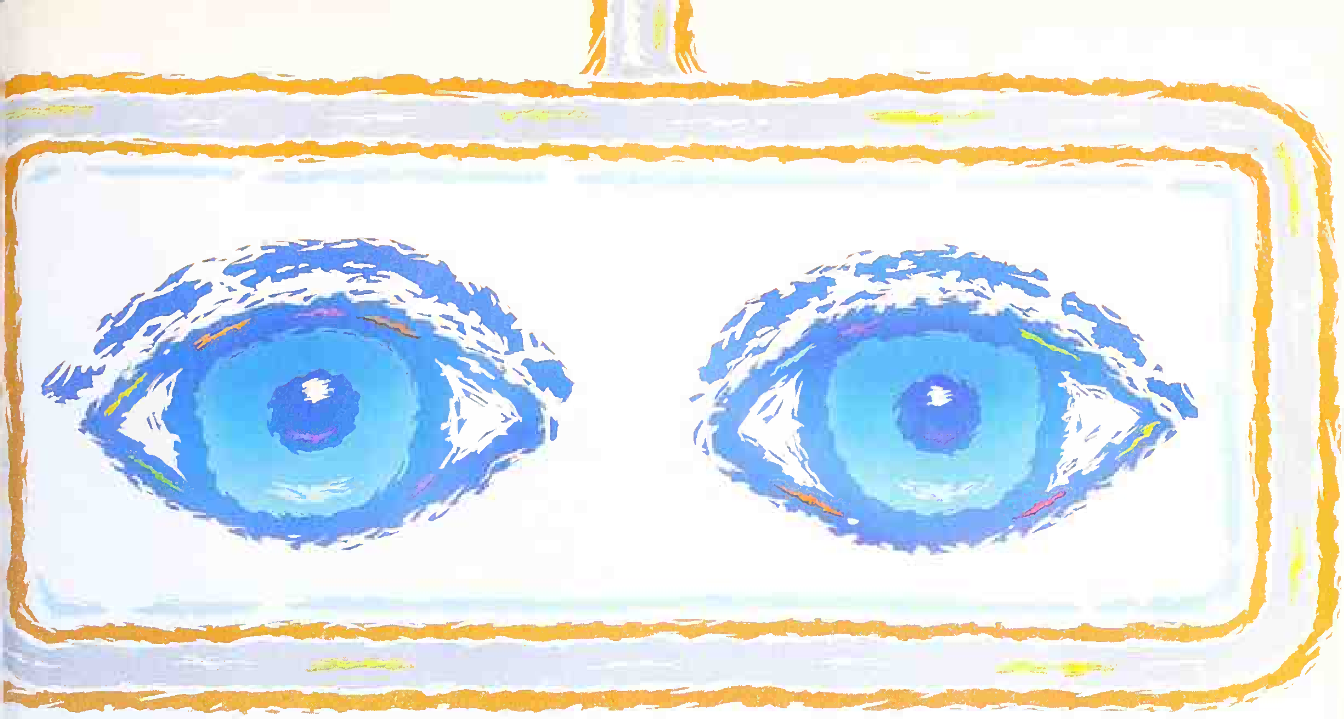
Of course, trouble is no stranger to these waters. In the mid-1980s, Placid Oil stumbled and its gulf fields were eventually sold off after a series of problems developing the necessary infrastructure thwarted its efforts to develop similar deepwater finds. Conoco and Exxon Corp. spent billions on gulf fields that proved to have little oil. But for Shell—which will have spent over $2 billion on deepwater exploration and production by 1997—the activity ha already reversed six years of production declines. In its Decembe quarter, Shell saw oil production ris 3%, while its March quarter brough a 5% jump over year-earlier results With strong chemical earnings, tha helped send Shell's quarterly operating profits up 38%, to $303 millior What's more, the reversal has com with only one of Shell's three bi gulf projects in production.

SMALL STAKES. Shell's gusher o good news has spawned a host followers. In recent months, Amoc Texaco, and Mobil have begun developing plans for gulf sites that lon sat idle, while France's Elf Aquitaine acquired its first-ever gulf stake i mid-April. Chevron Corp. and Exxo are planning to deploy floating platform that can be moved from site to site making drilling smaller fields profitabl "With advances in technology, suddenl a lot of these finds are more economic, says Standard & Poor's analyst Keit Petersen. Indeed, Oppenheimer & Co estimates that the costs of producin deepwater oil have fallen from $17 bbl. in 1992 to as little as $10 toda assuring that exploration will continu even if oil prices tumble again.

The improved prospects have also attracted a host of oil-service companie which in turn are lowering costs. I March, Leviathan Gas Pipeline Partner LP disclosed plans to build a new "gathering" pipeline to collect oil and ga some 200 miles out in the gulf; that wi save explorers the roughly $500,000 mile it costs to snake individual pipelines from fields to shore. "It make smaller and smaller opportunities increasingly viable," says W. Scott Young the team leader for Chevron's Gree Canyon deepwater exploration project And in late April, Reading & Bate Corp., a major drilling-services contractor, agreed to take a 20% stake in deepwater discovery project as part of deal to drill for Enserch. "Almost ever major company has or is formulating deepwater strategy," says Reading Bates CEO Paul B. Loyd Jr.

As for Shell, it's going ever deepe Shell subsea production engineer Denni C. McLaughlin says the company plan to explore gulf waters as deep as 8,00 feet. "Where we are today is not necessarily deep compared to where we wan to be in two to three years," he says For an oil company once in danger c running dry, Shell is finding there's n place like the bottom of the sea to ge really wet.

By Gary McWilliams in Housto



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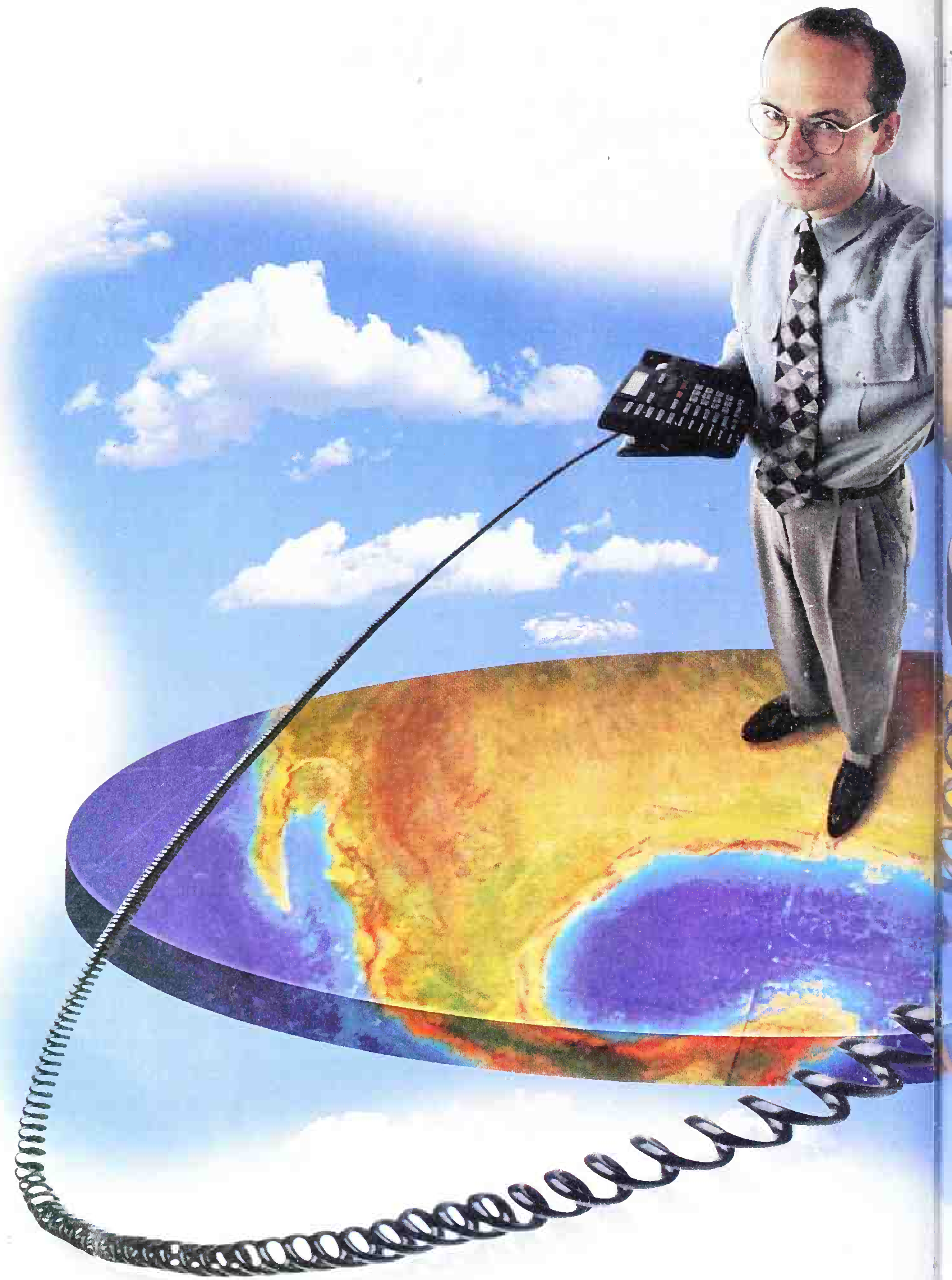

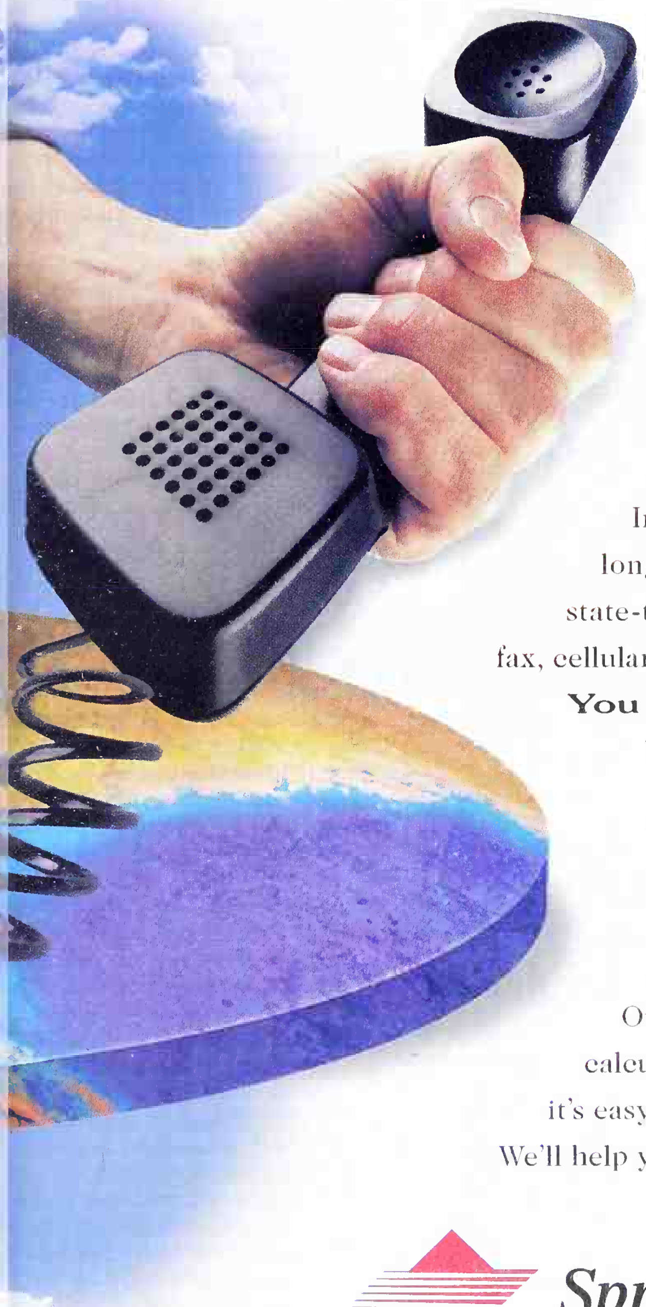

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CONSUMER GOODS

PITCHING TO PESO-PINCHERS

Mexico's slump has forced U.S. marketers to be creative

SPIRIT LIFTER Free makeovers are one way Maybelline is "investing to create loyalty"

KEITH DANNEMILLER/SABA

Late last fall, Carlos Canales was looking forward to ringing in a strong new year. With the personal-computer market booming, Apple Computer Inc.'s general director in Mexico expected sales to soar by as much as 70% in 1995. Now, he'll be lucky if he can hold the drop in dollar volume to 10%. Says Canales: "We're putting up a fight."

For U.S. marketers lured to Mexico over the past few years by the promise of an emerging middle class, December's 45% devaluation of the peso was a bruising reminder of the fragility of Latin American economies. Forecasts of 4%-a-year expansion have given way to warnings that consumer demand will fall by over 10% in 1995. With inflation raging at 70% and wage increases limited to 20% by government guidelines, purchasing power has shriveled. Middle-class Mexicans who just a few months ago could manage the downpayment on a car now struggle to pay the rent. The government expects that 750,000 jobs will be lost by midyear.

SWEET NUMBERS. Despite the turmoil, few U.S. businesses are abandoning the market. After upping their investment in Mexico by 50%, to $31 billion, since 1991, they're reluctant to walk away from the costly distribution systems and brand awareness they have built up. And the Mexican market still offers some irresistible numbers: a population of 90 million consumers, 60% of whom are younger than 25. "Long term, this is still a very good place to do business," says Peter Economides, CEO of McCann-Erickson's Mexican subsidiary, the country's largest ad agency.

But for now, marketers must reposition their brands for an economy gripped by austerity. They're raising the proportion of domestically produced goods as the price of imports soars, adjusting ad strategies, and working help local distributors stay afloat. A with the peso stabilizing and purchasi power expected to begin a recovery mid-'96, some companies see the cri as a chance to seize market share. Ma ket leader Coca-Cola Co., under fier attack from PepsiCo, has gone ahe with plans to roll out Fresca, wh Nestlé is continuing a planned assa on the supermarket ice-cream segme

Those who tough it out will face newly tightfisted consumer. No long flocking to expensive imports, Me cans are turning to miliar names, co brands, and value f the money. "Now, i smart to show you' with the people," sa Ian M. Reider, pre dent of pollster Ga lup Mexico. Wal-Ma Stores Inc., for exa ple, which has superstores and 22 Sam's Wholesa Clubs in Mexico, advertises produ as "proudly Mexican." Fast-food chai once positioned as a luxury for t working class, now show solidarity. P za Hut Worldwide pitched "crisis co bos" while McDonald's Corp. offers free burger with its McTrio Grande.

Sellers of big-ticket ite probably face the biggest ch lenge. "I don't think this is t time to tell a Mexican to buy new car," says Francisco Codiña, director of marketi for Ford Motor Co. in Mexi "It's a slap in the face." For with 20% of the Mexican ca and-truck market, has pos poned plans to introduce t Aspire, a Korean-made co pact. For now, Ford is bu nishing its image by spons ing a Mexican cyclist. At BM newspaper ads emphasize t jobs the company is creati at its new assembly plant ra er than its luxury image.

Maybelline Inc. is also wo ing to beautify its image. I giving free cosmetic makeove in the general-merchandi

Managing In Mexico

Despite the peso crisis, many U.S. marketers in Mexico are digging in for the long haul:

COMPANY	STRATEGY
APPLE COMPUTER	Continue ads; ease credit for dealers; hold demonstrations and seminars to create demand
FORD	Postpone new import model; shift manufacturing of some models to Mexico; new image ads
KRAFT FOODS	Cut margins on imported cereals; postpone launch of high-priced imports
MAYBELLINE	Continue importing from the U.S.; cut margins; offer free in-store makeovers
NABISCO	Shifted to domestic production before devaluation; will follow through on plans to launch new lines

es that are its main outlet. "It's a
to feel good, even if it's only 10
ites," says Mario Rubio, Maybelline's
eral manager in Mexico. "I'm invest-
to create loyalty." Maybelline start-
mporting its cosmetics into Mexico
years ago after decades of local
luction under license. Although the
's collapse has cut deeply into mar-
, Rubio says Maybelline, which sells
$10 million a year in Mexico, will
inue to import.

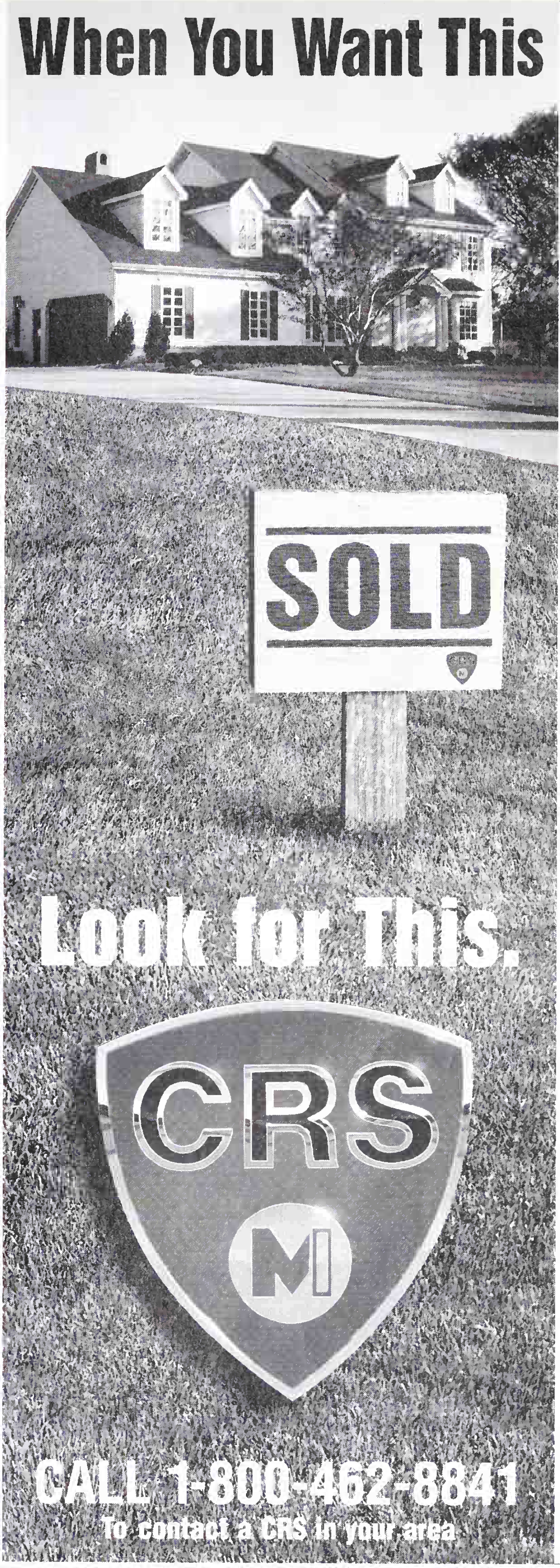
ven companies that manufacture in
ico are seeing costs rise. "Anybody
ating in Mexico this year is going to
ate under very, very difficult cir-
stances," says Catherine Moffatt,
-president for consumer and trade
keting for Nabisco Mexico, which
cookies, crackers, and other pack-
l foods. Still, Nabisco benefited from
llent timing. A month before the
luation, it launched Mexican-made
os and Chips Ahoy! cookies—which
at about half the price of their U.S.-
e counterparts. A new cracker and
ie will follow this month.

T A BUMP." Kraft Foods Inc. is also
positioned: It makes almost all the
million worth of products it sells in
ico each year locally, importing only
cereals and a few niche items. The
als have been a problem. To stay
petitive with market leader Kellogg
which produces locally, Kraft has
to sacrifice margins. But after sell-
cheese, margarine, and jam in Mex-
or four decades, Kraft has learned
de out boom-bust cycles. "It's just a
p in the road," says Ramiro Cebal-
general director of the grocery div-
at Kraft Foods México.

or many marketers, the hardest
has been to maintain distribution.
belline's Rubio found his retailers
erred to run out of stock rather
carry inventory at triple-digit inter-
rates. So he began sending out his
very trucks more frequently. "I'm
ributing with an eyedropper now,"
ets. To keep its more than 250 spe-
zed dealers afloat, Apple is providing
relief.

ranchisers, who have poured into
ico since 1992, are giving belea-
red franchisees a hand. Dryclean
which opened 70 stores over the
26 months, is accepting royalties at
xchange rate of 4.2 pesos per dollar,
above the market's 6 pesos—in ef-
discounting by 30% the fees its
chisees must pay. "Growth has basi-
come to a screeching halt," says
ie J. Rodriguez, president of
clean's franchise unit. "But the mar-
is very viable." If he's wrong, Dry-
USA won't be the only marketer in
ico that gets taken to the cleaners.

y Elisabeth Malkin in Mexico City



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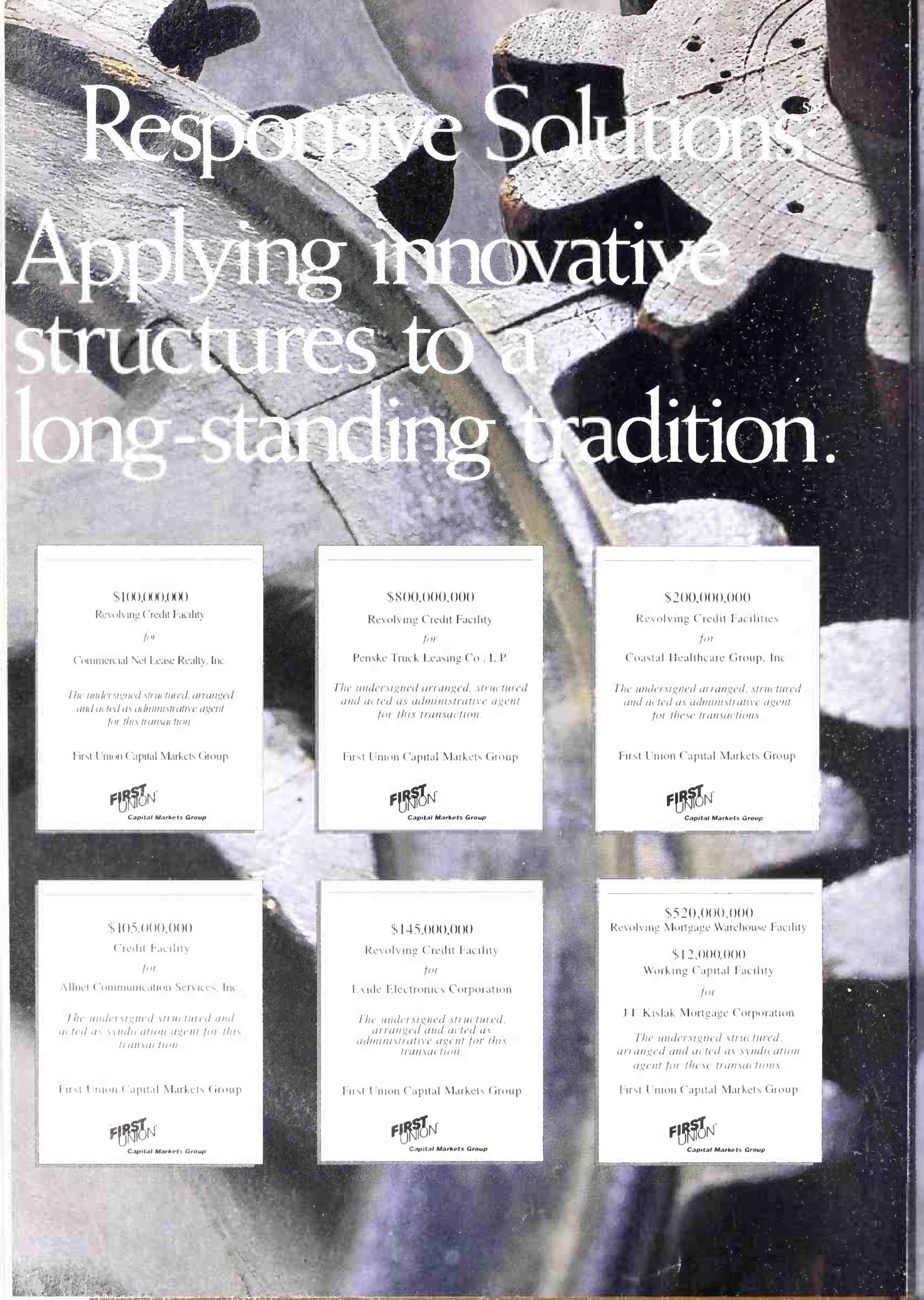

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Revolving Credit Facilities
for
Coastal Healthcare Group, Inc.

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Credit Facility
for
Allnet Communication Services, Inc.

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Revolving Credit Facility
for
Exide Electronics Corporation

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$12,000,000
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for
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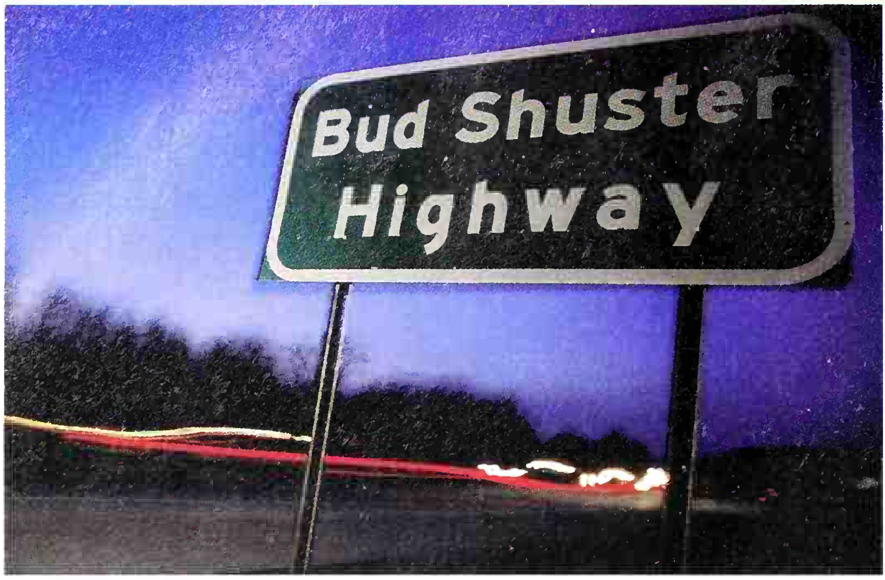

"WE NEED THESE PROJECTS" Shuster, chairman of the House Transportation Committee, says highway programs stimulate the economy. Like the Bud Shuster Highway near Altoona?

PHOTOGRAPHS BY CHRIS USHER; RICK BLOOM/SABA

CONGRESS

MEET BUD SHUSTER, PRINCE OF PORK

This Republican is out to spend $33 billion—or else

Those who think GOP stands for "gutting oversized programs" haven't met Representative E. G. Shuster. In March, the Senate tried to slash $140 million for highway programs attached to a $3 billion defense bill. But that was before Shuster, the tenacious chairman of the House Transportation & Infrastructure Committee, weighed in. By the time House and Senate conferees wrapped up the bill on Apr. 5, every cent for highways had miraculously been restored.

Chalk up another win for the Republicans' preeminent Prince of Pork. While his GOP colleagues are hell-bent on downsizing government, former software executive turned lawmaker Shuster (R-Pa.) is determined to spend more federal money—in his own district and those of his many political colleagues. And the 12-term representative, a die-hard Reagan Republican who has voted against just about every Big Government spending plan for two decades, except when it comes to his own domain, could care less if he's labeled a big spender. Shuster, who insists on being called "Bud" rather than by his real first name, Elmer, defends the highway programs as critical to the nation's infrastructure. With bridges and roads crumbling, "we need these projects," he says.

Now, fresh from his victory over the defense bill attachments, Shuster is launching a far more critical transportation battle: In May, he will try to remove from the federal budget the $33 billion in unspent airport and highway trust funds amassed from user fees and tolls. Currently, the trust-fund surplus finances government operations, an a counting technique that discourage Congress from looting the kitty. But Shuster succeeds, the trust funds wou be maintained as a separate accoun freeing the dollars to be spent.

The prospect of transforming th trusts into billions in bacon has lure 170 House members to co-sponsor Shu ter's measure—a show of strength th alarms deficit hawks. "The [Transpo tation] Committee would have treme dous power and autonomy," says Repr sentative Christopher Shays (R-Con of the House Budget Committee.

BIPARTISAN SUPPORT. That's fine wi Shuster, a jovial, back-slapping pol. Th holder of an MBA and a PhD in com puter science, he founded software ma er C3 Inc. in 1968—four years befo being elected to Congress from a roc ribbed conservative district in the A palachian Mountains near Altoona, P When his 1980 run for minority wh failed, Shuster deftly used his seat the transportation panel to build h clout. And, despite being a Republica in a then-Democrat-dominated Hous Shuster's ability to help forge biparti transportation bills won his distri countless porcine projects.

Take U. S. 220 between Altoona a the Pennsylvania Turnpike, a mult lane architectural marvel named th Bud Shuster Highway. It was built at cost of $90 million, 80% from feder funds, he said. In fact, the 1991 tran portation bill brought more money Pennsylvania—$934 million—than any other state. That included $2 million for Shuster's district, more tha what many states received. "This pr cess presents temptations to the pure of saints to feed at the public trough

Sending Home the Bacon

Growth of U.S. spending for transportation demonstration projects

	NUMBER OF PROJECTS	COST OF PROJECTS
Surface Transportation Assistance Act of 1982	10	$362 million
Surface Transportation & Uniform Relocation Assistance Act of 1987	152	$1.4 billion
Intermodal Surface Transportation Efficiency Act of 1991	539	$6.2 billion

DATA: U.S. CONGRESS

ises Joe Winkelmann, director of rnmental affairs with Washington .)-based Citizens Against Governt Waste.

uster tried to build an elevated rail system in Altoona. But the fathers bowed out of the $25 milproject when they realized they 't have the expertise to maintain The citizenry appreciated the ght, however. In fact, Shuster is opular he rarely faces opposition. last time he was challenged was in , when the Democrats put up Nanulp. She played Miss Jane, the dy assistant to flinty bank presi- Mr. Drysdale on the sitcom *The rly Hillbillies.* Shuster won by a ded 67% to 33% vote. Today, even opponents appreciate Shuster's le. "We're glad to have him," says nas K. Healy, a state Democratic nitteeman from Shuster's district. ore Bud, we never got anything the government."

D GOVERNMENT. Key to Shuster's is his willingness to share the th, liberally funding demonstration ects to help win votes for fellow inents regardless of party (table). ter supported the Tasman Corridor, .4-mile commuter rail line linking itas and Mountain View, Calif., in congressional district of Democratic Norm Y. Mineta, ranking member of House Transportation Committee. Federal Transit Administration estis it would cost up to $33 to attract new rider—five times as much as gency says is acceptable. Total estid cost: $500 million.

uster will need all the friends he nuster on both sides of the aisle to off his latest money move. He cons that taking the trust funds off budget and spending it is simply government. Consumers for years been paying an 18.3¢-a-gallon gas and a 10% airline ticket tax, but noney hasn't been spent on transation improvements.

t's the ethical thing to do," Shusnsists, dismissing critics who snipe the Pennsylvanian is trying to e his own fiefdom. Those detrache adds, "are throwing up a kescreen, trying to confuse the is- Shuster is even willing to play ball to strengthen his bid: If his is thwarted, he threatens to push t the gas and airline taxes, making drive to balance the budget even difficult.

hile it remains to be seen whether ambit will succeed, Shuster already made one point clear: The ascent tigovernment Republicans hasn't d business-as-usual on Capitol Hill.

Christina Del Valle in Washington

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Cover Story

CAN LARRY BEAT BILL?

Oracle's Ellison revs up to overtake Gates on the I-Way

On any other mountain, Lawrence J. Ellison would be king. From scratch, he has built Oracle Corp. into the overwhelming leader in the market for powerful database programs, one of the most important and fastest-growing software businesses in the world. He has overcome setbacks that would have sunk most others, including a failed stab at college, a nearly fatal surfing accident, and a financial scandal that had his company on the road to ruin.

Today, Ellison's success is unassailable: His wealth, topping $3 billion, places him among the two dozen richest people in the U.S. He's an impeccable dresser, a notorious ladies' man, a physical-fitness fanatic, a gourmet, and an adventurer.

But on the mountain Ellison is climbing, that's good enough to make him just second-best. The software industry, of course, is dominated by Microsoft Chairman William H. Gates III—younger, richer, and more famous. Oracle is the industry's second-largest company, Ellison its second-richest CEO. Gates has three times Ellison's fortune—and the reputation for be-

FITNESS FANATIC Will feisty Ellison settle for being No. 2 in software?

ing a visionary and an unparalleled businessman. Even if Gates occasionally indulges in hyperbole, customers and competitors listen when he spins his vision of the future. However, "when Larry says something, you do a reality check," says analyst Rick G. Sherlund of Goldman, Sachs & Co. "He has a tendency to get carried away."

Ellison, 50, has come too far to settle for No. 2. He has spent years transforming himself from a causeless rebel to a driven, disciplined warrior—a self-styled New Age samurai. Oracle's software is at the heart of thousands of networks, making Oracle an indispensable partner to every computer maker from Digital Equipment and IBM to Unisys, all of which use Oracle software to help sell their machines.

TO THE SUMMIT. With an explosion in demand for the systems Oracle software makes possible—customer service, direct marketing, and sales and inventory tracking—the company is on a steep ascent: Revenues are expected to jump 50% in fiscal 1995, ending on May 31, to around $3 billion, and to $4 billion in 1996. With shares trading at around $30—up from $18 a year ago—Oracle has a $13 billion market capitalization.

That puts Ellison in a position to make his move—to storm the summit and plant Oracle's flag where the Microsoft banner has long waved. His plan is to get there on the Information Superhighway. Just as Microsoft dominates the personal-computer industry today, Ellison wants to supply key programs for the next phase of the Information Revolution. He envisions a time when computers, smart TVs, video phones, and other appliances will connect to a worldwide network of information and entertainment services. Ellison wants Oracle to supply the software, starting with databases that will provide the foundation. "Microsoft is the past. Oracle is the future," he declares.

ORACLE VS. MICROSOFT

A comparison of FY 1994 data

	ORACLE	MICROSOFT
REVENUES	$2.0 BILLION	$4.6 BILLION
EARNINGS	$283.7 MILLION	$1.2 BILLION
GROWTH RATE	40%	24%
MARKET CAP	$13 BILLION	$49 BILLION

DATA: COMPANY REPORTS

As Ellison explains it, the Information Age is all about storing and distributing data. Computing power will be applied to the task of whisking digitized information—anything from a personnel file to a snippet of video—across a network. Oracle's database program, called Oracle 7, already manages all sorts of data for companies throughout the world. So Ellison asks: What better company for creating a super data pipeline than Oracle?

With that in mind, Ellison began putting his I-Way strategy together a few years ago. First, he spent millions of his own to buy supercomputer startup nCube. It builds so-called massively parallel machines—ultrafast computers with hundreds or thousands of chips that simultaneously store, reassemble, and feed data to thousands of destinations. Oracle's database software has been rewritten to work with supercomputers from nCube, IBM, Unisys, and others. Such machines, says Ellison, are the only hope for delivering video-on-demand at a reasonable price. A new video-server program now allows these machines to split a movie into thousands of chunks, store them on different disks, and distribute them to hundreds of viewers (page 96).

That's not all. Ellison's engineers have adapted Oracle 7 to run on all sorts of computers, from PCs to mainframes, so it

AESTHETE AND GOURMAND: Ellison at home in his garden inspired by love of Kyoto, in a New York limousine on the way to dinner at La Côte Basque

[illegible] LANSING/BLACK STAR

can be a universal standard. To help write "content" for the I-Way, Oracle is producing programming tools: Media Objects for digitized images and sound and Context to sift through the Internet.

A critical ingredient in Ellison's plan is to get I-Way carriers—phone and cable companies—and content providers in his corner. For two years, he has been circling the globe on a nonstop schmooze tour: to New York, London, and Tokyo to sign up technology partners, establish links with media moguls, and preach Oracle's Infobahn message.

Will such jet-lagged frenzy really pay off? Ellison has charmed, cajoled, and pushed his way into a series of impressive early contracts. Bell Atlantic Corp. is using Oracle technology in trials of video servers. So are British Telecom, Telecom Italia, and U S West. Meanwhile, Apple, General Instrument, Hitachi, Samsung, Scientific-Atlanta, and 55 others are working with Oracle to set software standards for TV-set-top boxes. And Ellison has signed up content developers including Capital Cities/ABC, Washington Post Co., and Home Box Office to use Oracle software for interactive TV.

Cover Story

But now, everybody's hat is in the I-Way ring—from DEC to IBM to Silicon Graphics. And Microsoft is pulling out all the stops to extend its software dominion into the online era. While Oracle rules among the minicomputers and mainframes that run big databases now, Gates sees a different future: Networks of microcomputers—running Microsoft database technology, of course—will take over. Gates has snagged deals to test his Microsoft Media Server with Tele-Communications, SBC Communications, and Nippon Telegraph & Telephone. "Oracle's not doing that much," says Gates. "Larry's hype has expanded to fill his ego."

"PRIVATE IDAHO." That there is plenty of hype—from Ellison, Gates, and other I-Way wannabes—is not in question. What is at issue is whether Ellison really has what it takes to make Oracle the dominant technology company in the coming era. A year ago, Ellison was saying Oracle's I-Way business might generate as much profit as its database business within a decade. But revenues from Info Highway deals are still so scarce that Wall Street analysts do not even factor them into their mostly bullish projections for the company.

Clearly, the I-Way frenzy has cooled. "There is no business on the Info Highway yet," says Nathan P. Myhrvold, M crosoft's senior vice-president for advanced technology. "An body who says they're ahead must be in their own priva Idaho." Some of Ellison's projects, such as the Bell Atlant trial, are on a slower timetable. And some deals Ellison sa he was about to close months ago—with Ameritech, Viaco and Nynex—have yet to jell. William Bluestein, an analyst Forrester Research Inc., likens Ellison's high-profile quest former Apple Computer CEO John Sculley's crusade to le the way in an era of wireless communications with the wil ly overhyped Newton personal digital assistant. "Larry El son could be to interactive TV what John Sculley was PDAs," he sniffs.

That's a harsh view. Unlike Sculley, Ellison isn't diverti huge sums and inordinate management resources to his p project. And as the arrival of interactive TV and movies-on-d mand recedes further into the future, Ellison has refocused projects that are closer on the horizon, including using the i tegrated services digital network (ISDN) high-speed pho lines to deliver to PCs such services as video E-mail.

Ellison remains the key to Oracle's bid for leadershi however. "Is Larry smart enough?" asks a former exec tive. "Yes. He has the bandwidth Bill Gates has. Is he insp ing enough? Visionary enough? Yes. But when you're talki about building a long-term institution, the fabric is importan

What kind of cloth is Ellison cut from? It's not easy judge. His public image is as carefully crafted as the Giev & Hawkes suits he buys on London's Saville Row. The La ry Ellison you see today—poised, athletic, articulate, char ing—is a far cry from what classmates and relatives expe ed (or feared) for young Ellison. Growing up in the south si of Chicago, he was a bright but unambitious student—so i different that his family feared he might not finish hi school. He wasn't a bad kid. He admits to such boyho stunts as "laundernauting"—taking a few spins in a lau dromat dryer—but he never got in serious trouble.

But Ellison was no ordinary kid next door. What t neighbors didn't know was that Lillian and Louis Ellis were really Larry's great-aunt and great-uncle. His bir

NONSTOP PROMOTER: Ellison at 5 had nothing like the drive of Ellison at 50: His life now is a frenzied tour to preach Oracle's I-Way message

PHOTOGRAPH (RIGHT) BY ERICA LANSNER/BLACK STAR

her, their unmarried niece, gave up the infant Larry in
5 and headed for California. She didn't see her firstborn
n until about 1990. Even now, Ellison says little about his
ringing. "Some issues I'm just not going to go into," he
. He will say that he was close to his adopted mother, but
his adopted father. "My father was very tough," he says.
ouis Ellison, a Russian immigrant who took his name
Ellis Island, failed in real estate and in a run for Con-
s. The family wound up at the lower end of his neigh-
hood's economic ladder—a situation the teenage Ellison
painfully aware of. A high school sweetheart wouldn't
ry him, he says, because her father thought he was below
station. Doris Linn, his adoptive sister and a retired so-
worker, believes Ellison's tangled parentage played a
role in forming his sometimes shy, sometimes arrogant
onality. "Being rejected by your mother, for whatever rea-
is something that I don't know people ever really get
," she says. "Larry can be very arrogant."
ears later, Ellison let Oracle's public-relations depart-
t rewrite his life story. They told reporters that Ellison
pulled himself up from an impoverished, crime-ridden
hborhood and wrote press releases saying he had gone on

to get advanced degrees from the University of Illinois and the University of Chicago. Today, the South Shore area is run-down. But when Ellison was growing up, "it was a nice, middle-class neighborhood," says Linn. By the time Larry was in high school, Linn, 20 years his senior, was married to a prominent lawyer. "When he went on dates, he used my car," she recalls.

Ellison entered the University of Illinois with vague hopes of becoming a doctor. But he ignored courses that bored him, and records show he was dismissed in June, 1964, for failing to maintain a C average—after skipping final exams two semesters in a row. He then attended the University of Chicago for a semester before dropping out. About this time, he got his first programming job.

"I DID INHALE." With the hippie era in full flower, Ellison packed his belongings into his 1964 turquoise Thunderbird convertible and headed for Berkeley, Calif. The year: 1969. "I had long hair, but I did not wear beads," he says. "And, unlike Bill Clinton, I did inhale."

But not for long. He stumbled onto the computer revolution and, after years of drifting, got serious. What changed his course? "I wish I knew," says his sister. She didn't hear from him for years after he left for California. She suspects he was simply inspired by Silicon Valley. "He seems to have found God in the system," she says.

His first taste of it was working as a programmer at var-

Oracle's Info Highway Partners

BRITISH TELECOM (March, 1994) Completed first rial of video-on-demand services to 60 households in November, 1994.

BELL ATLANTIC (January, 1994) Video-on-demand rial to 200 homes began this April. Will be expanded, with Nynex and Pacific Telesis, later this year.

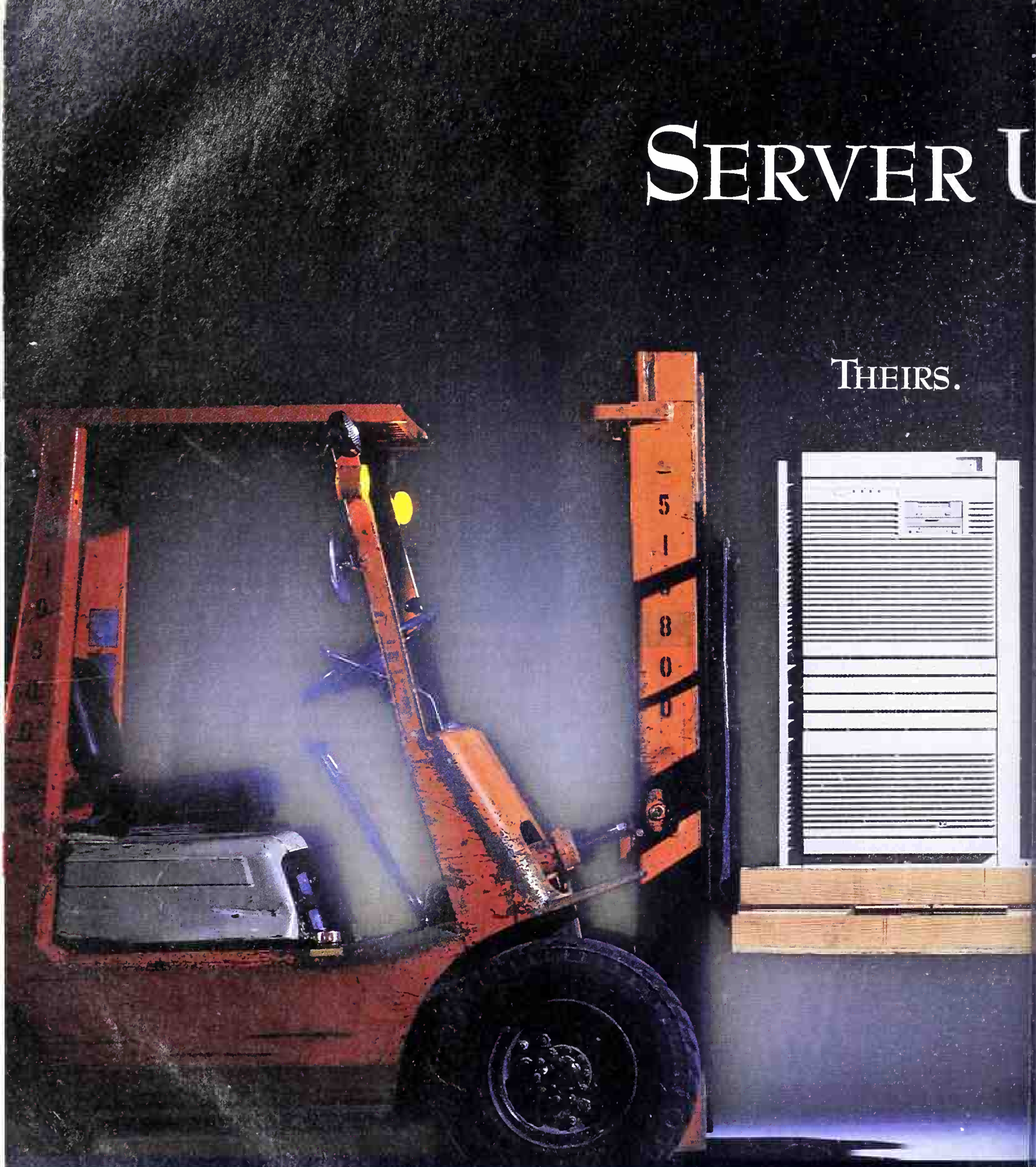
J S WEST (May, 1993) Alliance to create interactive nformation service for business, education, and consumer markets. Running experimental interactive television system in lab.

TELECOM ITALIA Video-on-demand trial to 50 households in Rome launched early this year. Will expand to more than 1,000 by yearend.

APPLE COMPUTER Working on a software operating system, based on the Macintosh but modified to control smart television set-top boxes that send and receive signals for interactive TV.

INTEL Sources say Ellison is currently negotiating with Intel Corp. and AT&T to create a data network that carries video.

DATA: COMPANY REPORTS



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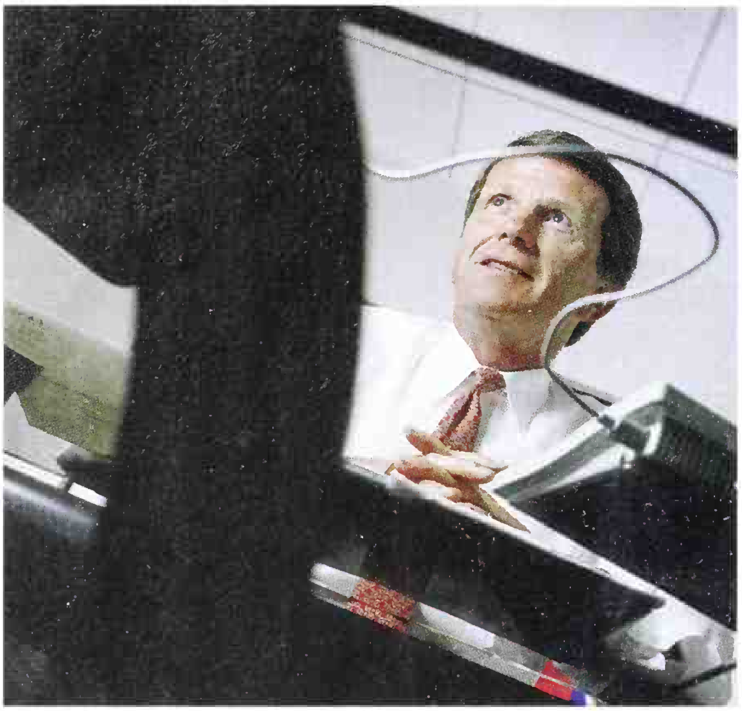
ious outfits, including Ampex Corp. and Amdahl Corp. In 1977, Ellison left to start a consulting company, Software Development Laboratories, on $1,200. He persuaded his former boss, Robert N. Miner, to kick in an additional $400 and join what would become Oracle. The pair made two correct bets: Minicomputers would take over many mainframe jobs, and relational-database technology would be a boon to business because it made organizing and analyzing data far easier. At the time, businesses were using "flat-file" databases that made it difficult to spot trends—a sudden spike in demand, say.

Ellison's own explanation for his success: "I've always been an iconoclast. I've gotten into enormous trouble. It cost me dearly in school. It has helped me make out like a bandit in technology, where the conventional wisdom changes every five years." He also says a trip to Japan in the mid-'70s opened his eyes. During a lunch in Kyoto, a bluebird flew in the window and landed on the black lacquered table. Cherry blossoms drifted in and landed in a bowl. "Nobody spoke for an hour," he says. "When I saw Kyoto, I knew where God got the idea for heaven."

Too poetic to be true? Jenny Overstreet, his longtime personal assistant, insists it's for real. "I've arrived at his house to work, my arms full of papers, and we spend the first 45 minutes watching two squirrels playing in the trees, or a duck couple returning to the pond for the third year in a row. This is fascinating stuff for him. It's life-reaffirming."

ELVIS SIGHTINGS. This side of Ellison is rarely on display around Oracle's headquarters—twin black high-rises at the northern edge of Silicon Valley. There, the CEO is so aloof that some employees have nicknamed him Elvis and refer to his rare appearances as Elvis sightings. Unlike Gates, a frequent speaker at industry events who enjoys verbal sparring with peers and reporters, Ellison dislikes crowds and rarely attends non-Oracle gatherings. "I think Larry is a very shy person," says Steve Jobs. Ellison counts Jobs as one of his closest friends and sits on the board of NeXT Computer Inc.



DOWN-TO-EARTH
President Lane serves as Ellison's reality check

Adds Jobs: "He can get up in front of a crowd now becau he's learned how to do it. But Larry's a very sensitive gu

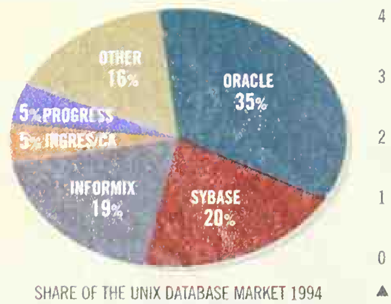
Others would disagree. He can match anyone in Silicon V ley with a put-down of a rival or its technology. Of M crosoft's video server, he says: "It hasn't worked, it does work, it cannot work, and it'll never work." And he's r known for diplomacy. At the April unveiling of a DEC compu er, for instance, he told reporters that Oracle 7 ran much fa er on the DEC machines than on IBM's—and proceeded denigrate the IBM product. That helped DEC's stock, but e raged IBM Chairman Louis V. Gerstner Jr., say IBM inside Ellison's associates co cede he has sharp elbov Intel President Andrew Grove, a friend, says: find him a kick. He's amusing, interesting p son. Nevertheless, n withstanding his charm would beware of him as businessman."

Although Ellison kee a low profile in the indu try, he does make hea lines—some of which would rather forget. Te ence J. Garnett, a form Oracle executive who h on occasion vacation with Ellison, sued his e boss last October, char ing he was wrongfully d missed after refusing to obey Ellison's orders to funn business to nCube. The suit was dropped without a sett ment. Oracle executives and board members say they a careful to review all deals for potential conflicts.

Ellison's most notorious lawsuit was brought last year an ex-employee who accused Ellison of firing her because s ended their sexual relationship. Ellison does not dispute t relationship, but denies the charges. Thrice married and vorced, he's happily aware of his reputation as a ladies' ma He recounts what Miner, who died last year, said: "As long Stanford keeps turning out beautiful 23-year-old women, L ry will keep getting married."

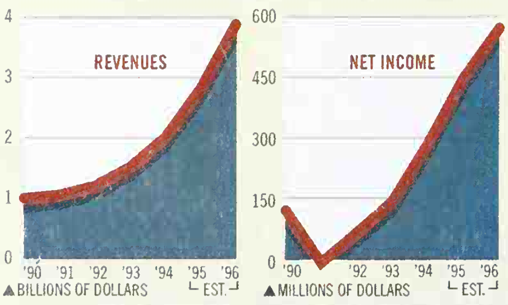
Ellison acknowledges, even celebrates, his toughness. H says he draws inspiration from Miyamoto Musashi, a 16th ce tury Japanese samurai who knew how to kill but was also a artist and poet. Ellison collects Japanese art and weapon

ORACLE IS TOPS IN ITS MARKET...



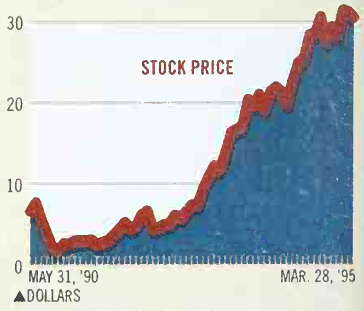
SHARE OF THE UNIX DATABASE MARKET 1994
DATA: SALOMON BROTHERS INC.

...WHICH DRIVES RAPID GROWTH...



DATA: COMPANY REPORTS, PRUDENTIAL SECURITIES ESTIMATES

...AND A SOARING STOCK PRICE



DATA: BLOOMBERG FINANCIAL MARKETS

his elegant Japanese-style house in Atherton, Calif., has
ree-acre garden, complete with a koi pond. (He's also
ling a house overlooking San Francisco Bay.)
n his own time, Ellison keeps racking up new interests.
nas taught himself to play piano and guitar and dabbles in
ing. He has a personal trainer and last year raised mon-
or a crippled athlete by competing in a bar-dipping contest
nst a triathlon champion. Ellison won. Never one to back
y from a challenge, Ellison once broke his neck and punc-
d a lung while body-surfing during a storm in Hawaii.
llison's manic drive can be dangerous in business, too. In
early 1980s, Oracle began to
inate the high-end database
ness, partly with technology
partly with a hypercompetitive
s force. The CEO set extraordi-
ly ambitious sales goals, re-
led successful reps handsomely,
tossed aside those who failed.
as a high-burnout environment,
sales doubled every year until
le reached $1 billion in 1990,
ing Informix Corp. and In-
Corp. in
lust. Ellison
l like a dic-
r, making all
decisions,
writing ads.
when it came
finance, he
ted the sub-
like a boring
ge course. (He
its he didn't
know what re-
ed earnings
e at the time.)
hen came the morning after: To
t the aggressive sales goals,
le's domestic salespeople had
booking revenues before their
, even selling products that
n't been developed. Revenues
earnings had to be restated for
l 1990, and the company risked
ulting on its bank loans. Ellison
admits Oracle was on the edge
ankruptcy.
he company was saved by
ging in seasoned executives, in-
ing Chief Financial Officer Jef-
O. Henley and Oracle USA
sident Raymond J. Lane, for-
head of Booz, Allen & Hamil-
Inc.'s technology consulting
tice. Lane recruited thousands
onsultants to help major cus-
ers install applications such as
oll, accounting, and sales track-
on Oracle databases. Lane also changed the compensation
em so that salespeople get paid only when products are
vered. Henley revamped accounting and introduced a
e conservative approach to finances. "There is profes-
al management inside the company now," says Sherlund.
While Lane and Henley run the day-to-day operations, El-
n plots his big moves. In addition to lining up I-Way
s, he has been seeking acquisitions. His boldest move: a
born plan last fall to mount a hostile takeover of Silicon
Valley icon Apple Computer. Ellison figured he could create a huge Mac clone business and use the Mac interface for interactive TV. His board gave him permission to explore the idea, but most directors considered it a long shot. Sources say the deal fell apart only when Ellison's Japanese partners got cold feet. Ellison hasn't given up: "At some time down the road, if Apple's [stock price] became attractive, we would reconsider," he says. Apple declines to comment.

Another target has been Lotus Development Corp. Ellison admits discussing an acquisition with Lotus CEO Jim P. Manzi but says that the talks never got serious. A few weeks ago—before Lotus had a surprise $50 million loss and become an obvious takeover candidate—Ellison acknowledged that he was still interested but said the price was too high. "If Lotus was cheap, we'd buy Lotus Notes and cc:mail," he said then. Today, his response to rumors that he's accumulating Lotus stock is: "No comment."

Yet another candidate on the list: Novell Inc.'s Unix operating-system business. In March, Ellison met with Novell CEO Robert J. Frankenberg to discuss buying Unix, on which Oracle 7 is the leading database program. The idea was to make Unix a stronger competitor to Windows. Eventually, he says, he gave up because the deal might spoil relations with other software companies that depend on Unix.

Monday mornings, Henley and Lane meet with Ellison to discuss new opportunities. That's when the Oracle boss usually floats his latest acquisition or technology wish list. "Sometimes, Jeff and I absolutely fall off our chairs," says Lane. "Very few of those ideas get implemented." Some analysts are concerned that one day Ellison will succeed in talking Henley and Lane into something that's too big. "Larry's desire to grow at an unsustainable rate could put negative pressure on the company," frets one analyst.

For now, most of Ellison's energy is focused on keeping a step ahead of Bill Gates, which is getting harder. In addition to snagging some of its own I-Way deals, Microsoft has joined Hollywood's Jeffrey Katzenberg, Steven Spielberg, and David Geffen in Dreamworks, a new movie studio. And Microsoft is plotting an assault on Oracle's core business—database programs that run on powerful servers—with Sequel Server for the Windows NT operating system.

Does Ellison ever tire of the hustle? After a long day of meetings with New York media executives, he slumps in the back of his limousine on the way to La Côte Basque and reflects. He recounts a long-ago conversation with his

Portraits of Two Software Billionaires

BILL

EDUCATION: Dropped out of Harvard

CHILDHOOD: Son of a prominent Seattle family; private schools

START IN BUSINESS: Co-founded Microsoft Corp. in 1977

PUBLIC IMAGE: Widely hailed as a visionary

PERSONALITY TRAITS: Brainy and combative

STYLE: Disheveled

MARITAL STATUS: Recently married a Microsoft marketing manager

DIGS: A $30 million high-tech compound on Lake Washington is nearing completion

LARRY

EDUCATION: Dropped out of the University of Illinois and the University of Chicago

CHILDHOOD: Brought up by a great-aunt and Russian-immigrant great-uncle in a modest apartment

START IN BUSINESS: Programmer for Amdahl Corp.; co-founded Oracle Corp. in 1977

PUBLIC IMAGE: Avoids public forums

PERSONALITY TRAITS: Charming and tough

STYLE: Dapper

MARITAL STATUS: Thrice-divorced; two kids

DIGS: A sprawling, Japanese-style estate in Atherton, Calif. New San Francisco house

(L TO R) PHOTOGRAPHS BY DAN LAMONT/MATRIX, JAMIE TANAKA

sister. "One day, she asked me: 'Which is more important, to be loved or to be respected?' I said: 'Respected.' She said: 'Wrong,' and left the room." He pauses, thoughtfully. "With wealth and fame, you get respect. But 20 years later, I figured out she was right. Ambition is a false god."

In recent years, Ellison has made more time for family. He fusses over the two children from his last marriage. And a few years ago he hired detectives to find his birth mother and her family. Now, his 35-year-old half brother works at Oracle, and Ellis is putting a half sister through college.

But he hasn't exactly mellowed. During a lunch bre from a business meeting at his house he declares: "We're ve ambitious. We want to be the No. 1 software company the world." Does that mean he would like to displace Gat "You mean, do we want a monopoly like Bill's? I've always sented it when other people have monopolies. Our o monopoly would be swell." And a great way to beat Micros at its own game.

By Richard Brandt in Redwood Shores, Ca

'MICROSOFT PROGRAMMERS NEED MORE SLEEP THAN WE DO'

If Lawrence J. Ellison winds up leading the Infobahn race, it will be thanks to the efforts of a few young engineers. They're the guys who designed Oracle Corp.'s Video Server, a program to dish up digitized video. While most interactive TV technology is still gestating, British Telecom PLC and Bell Atlantic say that Oracle's system works and that they're ready to expand their trials. Not bad, considering the Oracle team built its first prototype in just two months.

UP ALL NIGHT

Oracle engineers built a video server in just two months

The project got started back in mid-1993, when engineers Andrew Laursen, then aged 34, and William Bailey, then 27, were already working on a program for sending video clips across a network. Laursen got the idea of trying the program on as many as 1,000 processors at once. Bailey's response: "You know, dude, I think we can do this."

The idea may have been simple. Getting it right wasn't. Broadcasting a digitized film is fairly easy. Serving up 100 different films to 100 houses at 100 different times is a programming nightmare. Laursen's idea was to use a supercomputer from Ellison's nCube Inc. to split the video data into 1,000 different segments and store each of them on a different disk drive, controlled by its own microprocessor. One processor coordinates all the others so the film flows seamlessly in the correct order. When a new viewer orders a film—whether it's 20 seconds or 20 minutes later—the first drives can start delivering the film.

In June, 1993, they took their plan to Ellison, who gave it an immediate thumbs-up. "Larry likes sexy-sounding technologies," says Bailey. Six weeks later, he dropped by the lab, where the programmers had yet to get a single video to play. But the boss wanted to show off the setup—at a conference less than three weeks away. After a quarter-million dollars in new gear and 1½ weeks of round-the-clock work, the team had its first success: At quarter to midnight on a Saturday night, it sent a Pink Floyd video to a PC. The programmers called Ellison at home, and within an hour he arrived, date in tow. "I wanted to see it," Ellison says. "I couldn't just leave her there."

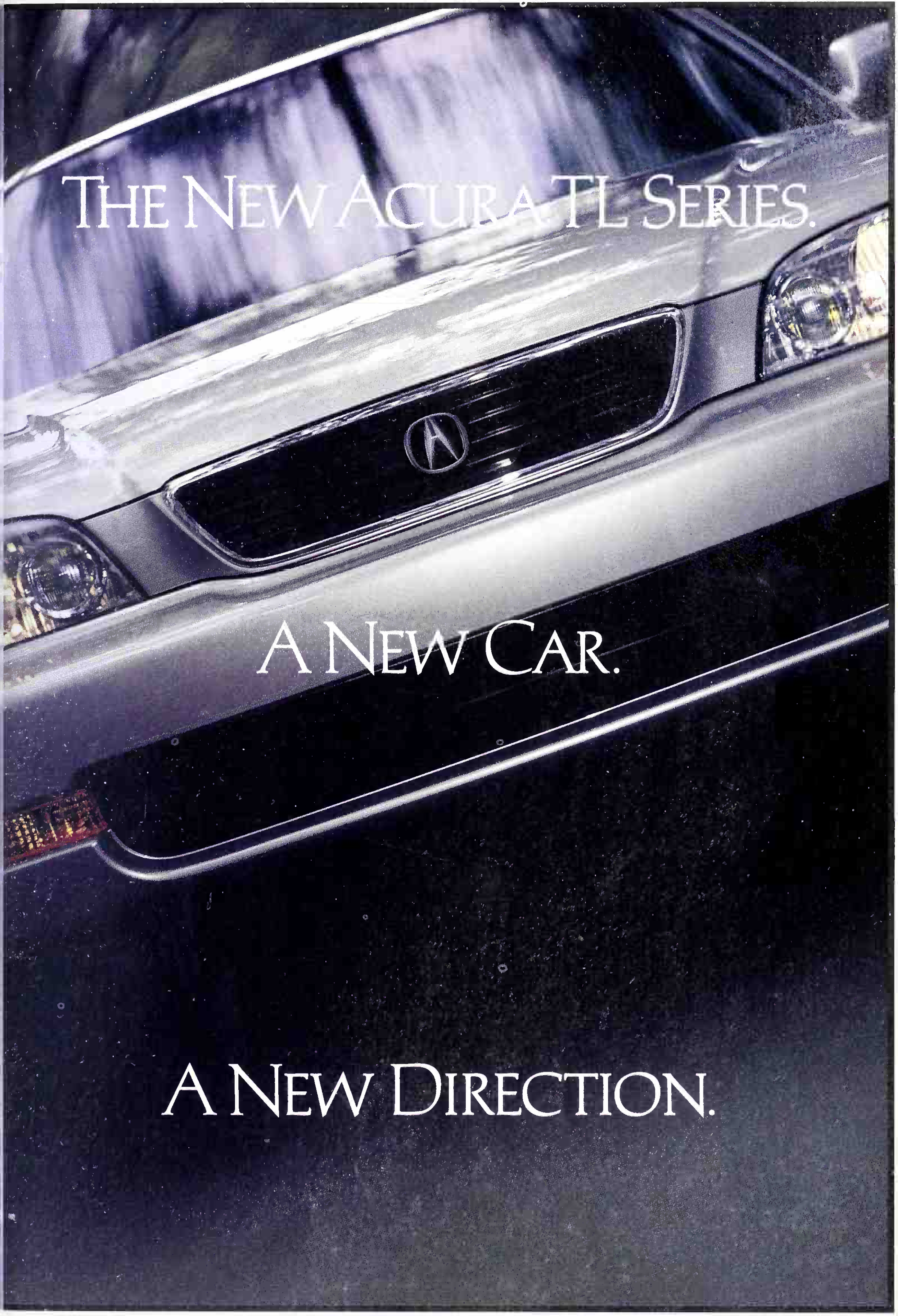
The next step—getting more than one video at a time to play—was harder. The server worked, but the software for the three PCs that were to run the videos didn't. A day before the conference, two PCs were working. Then, one crashed. Finally, in desperation, they copied the entire program from the working PC onto the others, and at 10 p.m. on the night of the show, miraculously the system worked.

"UNBELIEVABLY COOL." How did the Oracle team do in two months what Microsoft Corp. took more than a year to pull off? "Microsoft programmers need more sleep than we do," cracks Bailey. Laursen believes that it had more to do with determination—and a prod from Ellison. The program has since been adapted to run on a wide range of computers, including systems from Digital Equipment Corp. and Hewlett-Packard Co.

Microsoft executives remain unimpressed. They believe that they can do the same thing with a network of PCs—for less than the $500 per household (not including the TV-set-top box) that a typical nCube system would cost.

While Oracle waits for the I-Way to take shape, it is trying to drum up business for its video server in corporations and online services. Using high-speed integrated services digital network (ISDN) phone lines, Ellison says, the server can send video to a 3-inch-by-4-inch window on desktop PCs. That would make possible video E-mail, for example. Oracle is working with Intel Corp., and sources say AT&T is considering joining the project. "This is like a video-enabled Internet," says Ellison. "It's unbelievably cool." Almost as cool as winning the I-Way race.

By Richard Brandt
in Redwood Shores, Calif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SOME THINGS ARE WORTH THE PRICE

ACURA

MARKETS

DOW 5000. DON'T LAUGH

Productivity is up, inflation is tamed. It could happen

A tattered dollar. A slowing economy. Rising prices for raw materials. Hardly a recipe for a roaring stock market. Yet the Dow Jones industrial average has soared past 4300, gaining more than 500 points this year. Is this yet another misadventure on Wall Street, a manic euphoria that makes for a speculative bubble and spectacular blow-off?

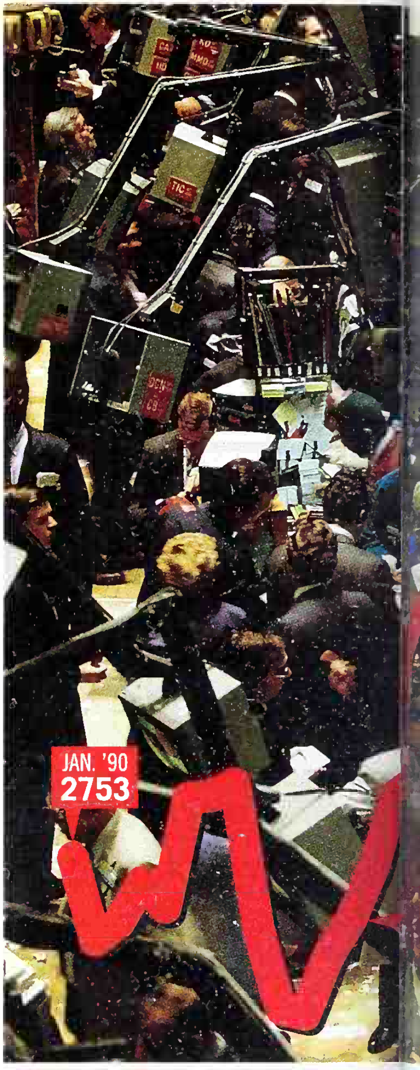
Certainly, market mavens are worried that the party is about to end. Stock market valuations are lofty by some measures. And fear that mounting price pressures will ignite inflation haunts the market. "We have concerns about a 4% to 5% inflation rate in the second half of 1995," says Edward G. Riley, chief investment officer for the private bank at the Bank of Boston Corp. Adds John P. Hussman, a money manager and investment newsletter writer based in Farmington Hills, Mich.: "There's a likelihood of slipping into a bear market at any time."

"IDEAL CLIMATE." Yet the economic fundamentals suggest stocks have a long way to go. In the new '90s economy, productivity has been rising at about a 2% average annual rate, double that of the previous two decades. The startling gains from corporate restructurings and the high-tech revolution will pay dividends for years. U.S. businesses are seeing remarkable profit growth, and disinflation continues. "Strong growth without inflation is an ideal climate for stocks," says Jeremy J. Siegel, professor of finance at the Wharton School.

A few economists are even starting to tempt the fates. "The Dow is heading for 5000," says Edward E. Yardeni of C.J. Lawrence/Deutsche Bank Securities Corp. 5000? Over the next several years, 5000 is not as outlandish as one might think, considering that it's only 14% above current levels.

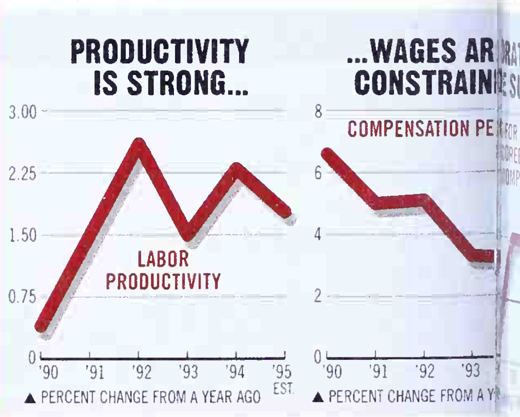
Of course, like any other market, the stock market will take sudden, stomach-churning dips or stagnate for months on end. Risks are multiple in the new global economy, too, from unexpected currency devaluations, like the recent Mexican peso crisis, to political upheavals in developing nations, such as the anticipated power struggle when Deng Xiaoping passes away in China. Still, in the U.S. there are none of the economic and financial excesses that typically scream "trouble ahead." The banking system is sound. This is the first business expansion in the postwar period not fueled by a double-digit rise in corporate debt. "The economy has no significant imbalances that are necessary for a recession to happen," says Mark Zandi, economist at Regional Financial Associates Inc.

Indeed, the one credible threat to the market—an overheated economy—is fading fast. Last year's interest-rate hikes engineered by the Federal Reserve are ratcheting down the economy's growth rate to a more sustainable pace. Gross domestic product slowed from a 5.1% annual rate in the fourth quarter of 1994 to 2.8% in the first quarter. And there's little to fear that the "soft landing" will turn into a nosedive. The U.S. economy is resilient and prospects for a long global upturn are bright. Economies are expanding in 46 out of the 49 countries followed by Allen L. Sinai, chief economist at Lehman Brothers Inc. The synchronous growth of so many countries in so many areas of the world has no precedent in modern economic history, says Sinai. With U.S. export-oriented companies looking forward to record sal
this year and next, the economy cou
easily reaccelerate.

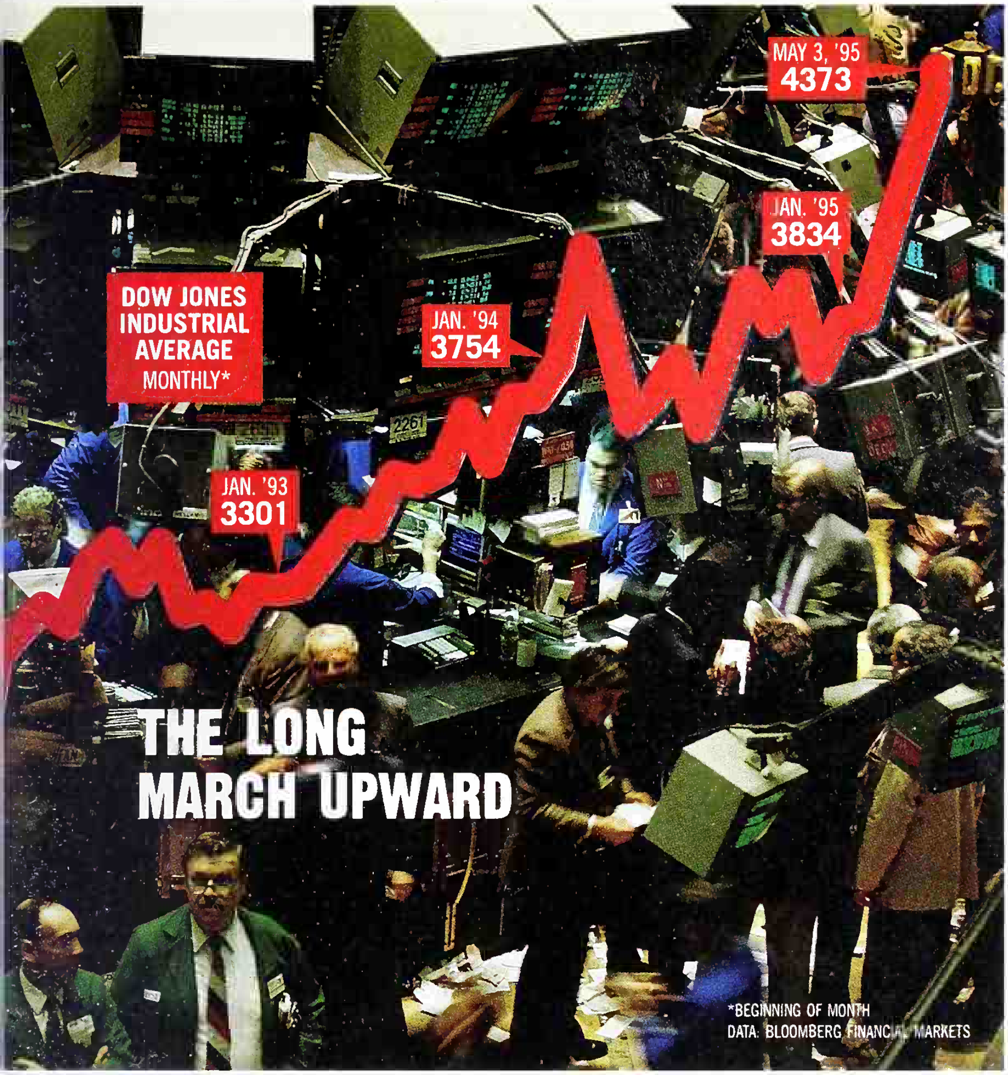


But won't a rebounding economy lea
to higher inflation, rising interest rate
and lower stock prices? Forget it. W
Street has insisted that a robust econ
my would ignite inflation—and sink t
market—for more than four years.
has been dead wrong. The reason is
huge array of forces pushing the U.
toward lower inflation," says George
Jacobsen Jr., chief investment officer

The Case For a Strong Market



DATA: REGIONAL FINANCIAL ASSOCIATES, ACCESS RESEARCH, STANDARD & POOR'S COMPUSTAT, BUSINESS WEEK



THE LONG MARCH UPWARD

*BEGINNING OF MONTH
DATA: BLOOMBERG FINANCIAL MARKETS

ey manager Trevor Stewart Bur- & Jacobsen Inc. Among them: the eral Reserve's tight-money policy; ning real government spending; bru- ompetitive pressures from deregula- and globalization; and consumer ilantes" who hunt down the best es. To top it off, U. S. companies inue to make gains in productivity, :h lead to lower costs.

ıst as important for the stock mar- labor costs are remarkably sub- l. Despite the economy's heady 4.1% growth rate last year, the employment-cost index, which includes wages and benefits, rose a mere 2.9% in the 12 months ended in March of this year, the smallest yearly gain since the index was first compiled in 1981. "The employment-cost index is consistent with our forecast for a deceleration in consumer inflation, bringing the [consumer price index] for 1995 below the 2.7% rate of 1994," says Richard F. Hokenson, chief economist at Donaldson, Lufkin & Jenrette Securities Corp.

The combination of high productivity and tepid wage increases is pushing corporate profits through the roof. In the latest business cycle, profits have exceeded the recovery in earnings during comparable periods by 70%, according to Henry Kaufman, who heads his own investment firm. With order books strong and exports improving, another rise in profits is likely this year, albeit at a somewhat slower pace than last year's 40% jump. In the first quarter, earnings for the 900 companies on BUSINESS WEEK's Corporate Scoreboard rose a strong 30% (page 122).

Solid corporate earnings explain why stock market valuations aren't zany. Equity prices are high, but not unreasonable considering the profit boom. Today's price-earnings ratio of 16 on the Standard & Poor's 500-stock index is below the p-e of 21 a year ago. Bonds have rallied over the past few months, with the yield on the 30-year Treasury bond falling by half a percentage point, to 7.25%. At current interest rates, the S&P 500 doesn't appear overvalued, according to Byron R. Wien, chief U. S. equity strategist at Morgan Stanley & Co.

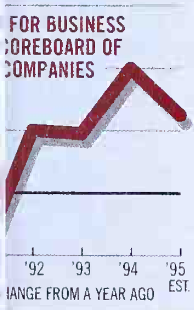
True, the dividend yield on the S&P hovers around 2.6%, about as low as it has ever been, and a sign that stocks may be overpriced. Instead of hiking dividends, though, many companies have accumulated cash and engaged in large-scale repurchases of their stock—in effect, a policy that creates capital gains for shareholders, which is capped at a 28% federal tax rate rather than a top rate of 40% for dividends.

TOO ROSY? What's more, faced with billions of dollars in bills to pay for their children's college educations and their own retirements, an aging population is putting more of its income into stocks. Look at 401(k) retirement savings programs. According to data compiled by Access Research, a pension consulting firm in Windsor, Conn., equity investments make up 19% of 401(k) assets, up from 10% in 1990. Even more striking, approximately 70% of all new 401(k) contributions are going into stocks.

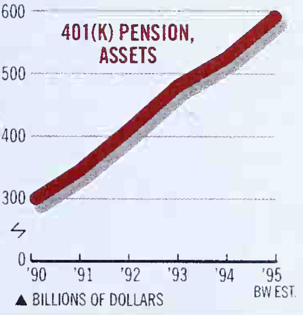
Is all this too rosy an outlook? Of course, economists are notoriously bad at forecasting markets, second only to doctors and dentists. Still, on the most fundamental level, the U. S. stock market reflects the outlook for the U. S. economy. And with inflation beaten into the ground and productivity on the rise, the signposts are pointing to better stock times ahead.

By Christopher Farrell, with Jeffrey M. Laderman, in New York

RATE PROFITS : SURGING...



...AND PEOPLE ARE INVESTING MORE



STOCK MARKET

WHO WATCHES THE WATCHDOG AT NASDAQ?

Critics from all sides–even from within–say the market can no longer police itself

Joseph R. Hardiman, president of the NASDAQ stock market, had high expectations when he stepped up to the podium in late March to introduce a new trading system for small investors. But those expectations were soon dashed. Before an overflow crowd at New York's posh Inter-Continental Hotel, the press briefing quickly degenerated into a shouting match between the NASDAQ chief and dissident NASDAQ broker Sheldon Maschler.

Claiming he was representing a sports publication, Maschler demanded to ask a few questions. Hardiman refused and threatened to have the burly head trader of Brooklyn-based Datek Securities Corp. thrown out by hotel security. Undeterred, Maschler denounced NASDAQ's domination by the clubby big firms and blasted the organization's executives for using their regulatory powers to drive small firms out of business.

Hardiman now tries to put a positive spin on the embarrassing episode. While disputing Maschler's charges, the NASDAQ chief insists that one of the organization's biggest successes is treating all constituencies fairly. "Criticism by members is healthy," he says. "It shows us if we get out of balance."

STRUCTURAL FLAWS. The Maschler incident is symptomatic of increasingly serious management problems and bitter internal dissent at the rapidly growing market system. At the root of NASDAQ's troubles is its structure: Owned and operated by the National Association of Securities Dealers (NASD), NASDAQ is a group of nearly 500 market makers who trade with one another over the phone. They advertise offers to buy and sell stocks on thousands of electronic quote machines in brokerage offices nationwide. But a vocal group of small firms alleges that the market's rules are designed to boost the profits of the large NASDAQ firms that control the market—at small firms' and investors' expense.

These firms are aiding federal prob into possible illegalities on NASDAQ. Th Justice Dept. is investigating allege collusion to fix prices. The Securities Exchange Commission is looking in allegations of endemic late reporting trades and backing away from quote stock prices by traders. Academics ar investors have also questioned the fai ness of the way market makers co duct business. Indeed, pressure is slo ly building to transform NASDAQ into true national electronic execution m ket, which could curb many of the leged abuses—and wipe out much the big market makers' edge over sma er firms.

The heightened scrutiny could al lead to historic changes in the relatio ship between NASDAQ and the NAS Critics say the NASD may have a confli of interest: It not only owns NASDA but also has a congressional manda as a privately run regulator to poli the market and its member firms. "Co

AP/WIDE WORLD

> "Criticism by members is healthy. It shows us if we get out of balance"
>
> — JOSEPH HARDIMAN
> President, NASDAQ

A SQUABBLE FOR THE NEXT HUNDRED YEARS?

Critics, especially some small NASDAQ firms, say the NASD, which owns NASDAQ, abuses its power. The NASD says it runs its market fairly.

CRITICS	NASD
The NASD and NASDAQ boards are controlled by major firms, which sway policy to suit their own interests.	The NASD balances the interests of all constituents. The boards have been adding nonindustry members.
Some small firms are targets of unfair disciplinary actions, and their rights of due process are violated.	The system is not unfair. Cases are evaluated by a panel of peers. Decisions can be appealed to the SEC and federal courts.
The NASD retaliates against new firms set up by dissidents by restricting their activities.	Care must be taken in letting new firms into the business to make sure they have enough capital and experience.
The NASD, along with major NASDAQ market makers, has tried to limit trading by some small firms on the Small Order Execution System (SOES).	Some small firms trading on SOES take unfair advantage of a system designed for individual investors and create unnecessary volatility in stocks.
The NASD should be split off from NASDAQ. That would end the conflict of interest between the NASD's role as both NASDAQ's owner and its regulator.	The benefits of synergies in combining NASD and NASDAQ make any separation an unwise strategy. The Big Board and other exchanges have similar structures.

DATA: BUSINESS WEEK

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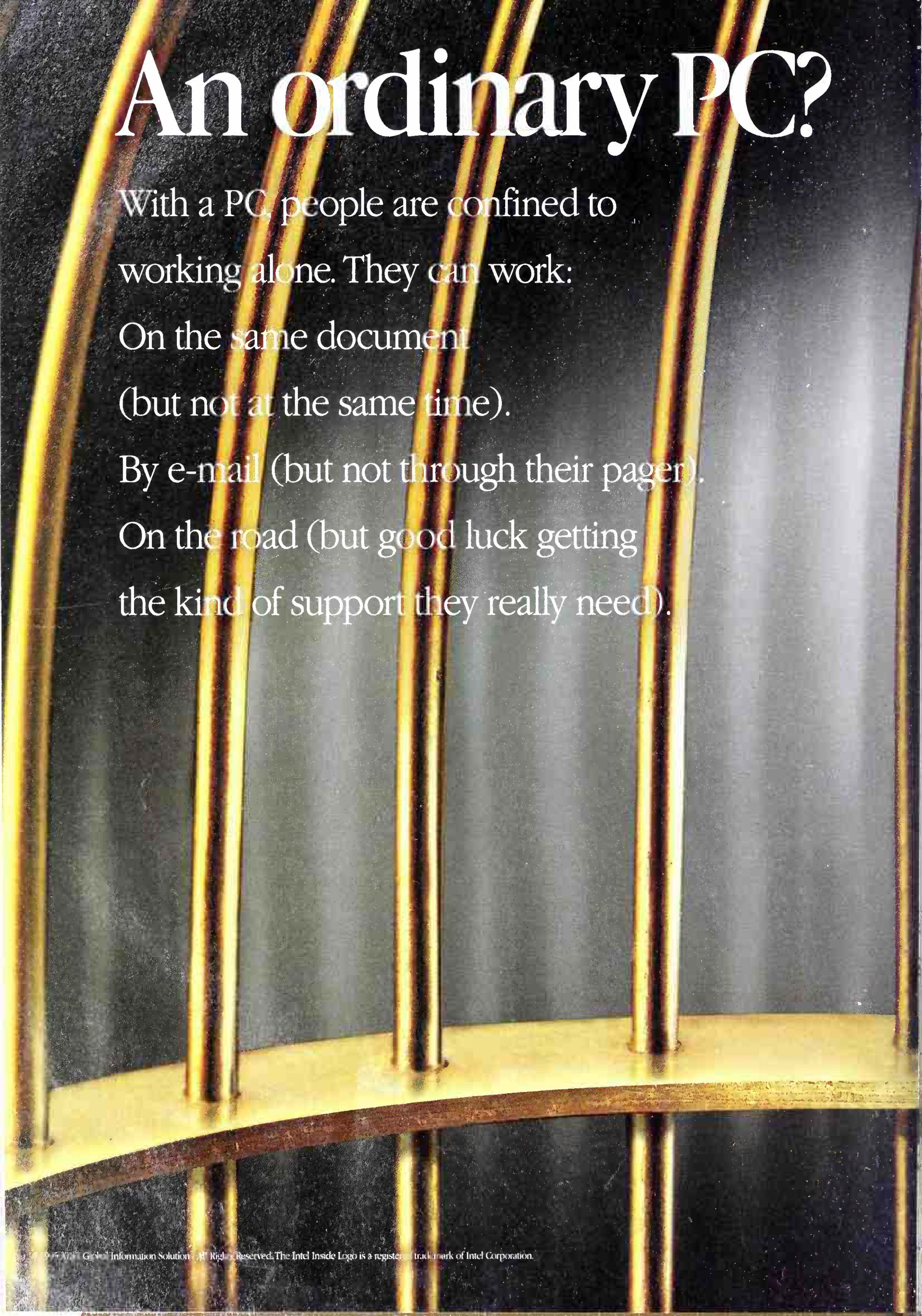

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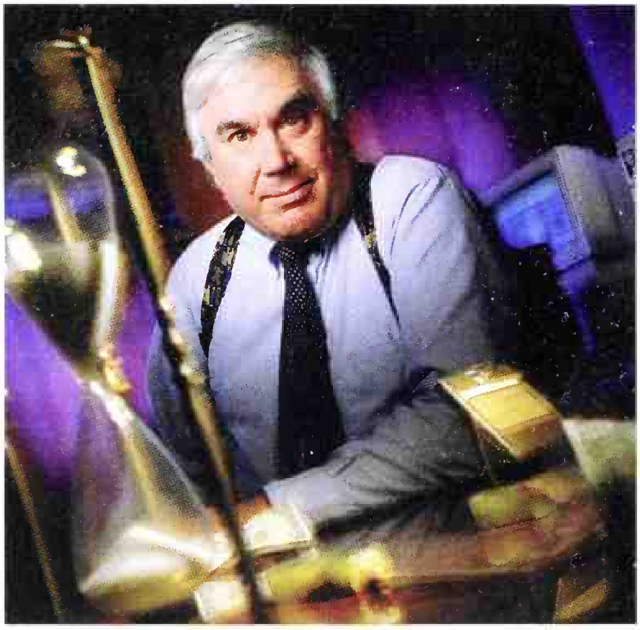
gress has created an entity that has more power than a king," says Robert C. Beers, a former NASD enforcement attorney now in private practice.

Managing the NASD's vast array of constituencies may be a nearly impossible job. In the past two decades, the market has ballooned from a backwater for the stocks of emerging companies to the world's second-largest stock market, trading 321 million shares of 4,900 listed companies daily. NASD oversees 5,429 firms and 489,000 brokers (chart, page 109). "The question is being raised if the governance structure has kept pace with the expanded responsibilities," Hardiman concedes.

To forestall government-imposed reforms, the NASD last November appointed an independent panel headed by former New Hampshire Senator Warren B. Rudman to study the market's organization and governance. Hardiman acknowledges that the committee is considering some radical proposals, including spinning the market off from the NASD. Rudman declined to discuss specifics but said the study should be completed this summer.



ROBIN THOMAS

BIG LOSERS. To its critics, nothing better symbolizes the NASD's preoccupation with protecting big market makers than the events that led up to the development of the new system—dubbed Aqcess—which Hardiman introduced at the March press conference. It started with the 1987 market crash, which prompted the NASD to force market makers to conduct trading on the little-used Small Order Execution System (SOES). The system, which guaranteed electronic execution of trades up to 1,000 shares, was seen as a way to protect investors from devastating market failures such as the crash, when brokers refused to answer telephones.

While designed for small investors, savvy dealers at some smaller NASD firms figured out that they could make tidy profits by using SOES to trade shares when dealers failed to update their prices. The losers often were big market makers that weren't paying enough attention to price changes by rivals in the same stocks.

When the large firms woke up, they struck back at traders they derisively labeled "SOES bandits." The NASD passed a series of rules that hurt these SOES firms—and investors as well—by limiting market makers' obligation to fill orders on SOES. Swayed by the NASD's arguments that SOES firms disrupted the market overall, the SEC rubber-stamped many of the changes. Some SEC officials now regret its action. "We took a system that wasn't perfect and messed it up even more," concedes SEC Commissioner Richard Y. Roberts.

Over the next few years, the NASD fought a series of pitched battles with the SOES firms to restrict their trading on SOES. The courts and the SEC, which began to take a harder line, ruled in favor of the SOES firms. Hardiman staunchly defends the NASD's steps. Some firms "were taking advantage of a system," he says. "We thought it was inappropriate."

> "The entire NASD process has mutated into a special agenda of a few large firms"
>
> — ALAN DAVIDSON
> President, Zeus Securities

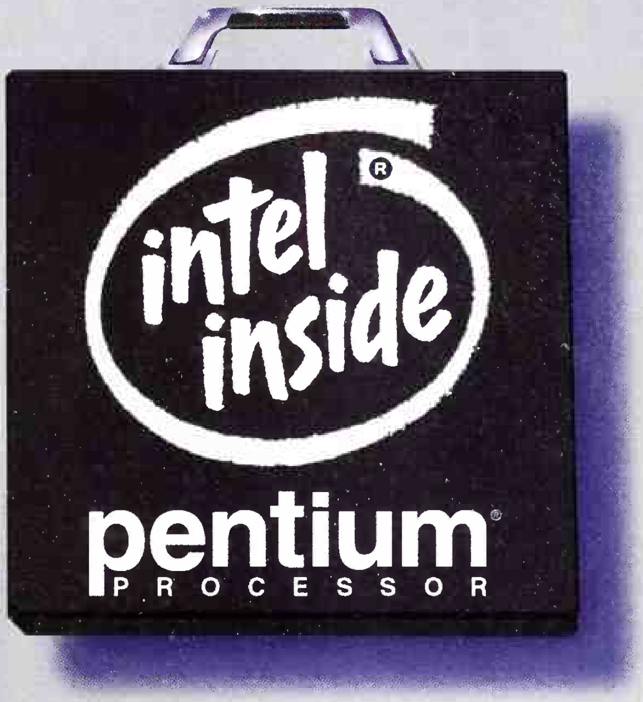
The new version of SOES, Aqcess, is supposed to satisfy everyone's complaints. The proposed system offers execution for orders of up to 3,000 shares and is being promoted as the first central electronic market dedicated to small investors. Hardiman says most NASD member firms support Aqcess. But it's already under fire for giving firms a loophole to not always make good on their quotations. "Aqcess is the strongest evidence that NASD is not tryi hard to act in the public's interes says Rutgers State University of Ne Jersey's finance professor David Wh comb. "It's just trying to put forwar cleverly designed system with minim change."

NO CHOIRBOY. The SOES fight is har the only contentious issue. Many sma er members claim the NASD's discip nary mechanism is biased. Take t treatment of Maschler's Date Maschler admittedly is choirboy. He made a fortune notorious First Jersey Secu ities Inc. and has a disciplina record dating back to 1977.

Still, the NASD's treatment his firm raises questions. 1992, it suspended Datek fro trading for six months aft finding that Maschler violat some of the rules designed curb SOES firms. But the S found that two of the thr members of the disciplina panel worked at firms—Sm Barney, Harris Upham a Shearson Lehman Brothers that were involved as mark makers in 20% of the transa tions at issue. The conflict interest led the commission overturn the sanction. Masc ler now is suing the NASD and half dozen major Wall Street firms, see ing $24.6 million in damages. Maschle background "doesn't give license to t NASD to act improperly," says Beers, t former NASD attorney. Hardiman declin comment because of the litigation.

A less visible tool wielded by t NASD against dissidents and associates SOES firms is the "restriction letter"- document that dictates terms of ope tion for new and expanding firms. Ty cally, a firm with $125,000 in capital allowed to make markets in the stoc of 50 companies. But the rules seem change for mavericks. Take Big Boa member Domestic Securities Inc. It h a nine-year track record and a healt $1 million in capital, but its affilia company, All-Tech Investment Gro Inc., fought the NASD's efforts to rein SOES's use. When Domestic's new NA membership became effective in m 1994, the firm was approved for maki markets in only 50 stocks. A month l er, Domestic applied to increase th number and hasn't gotten an answ yet. "This is clearly retribution becau of All-Tech's criticism of NASD," sa Harvey I. Houtkin, head of both firm

Hardiman says the association has be careful in admitting new firms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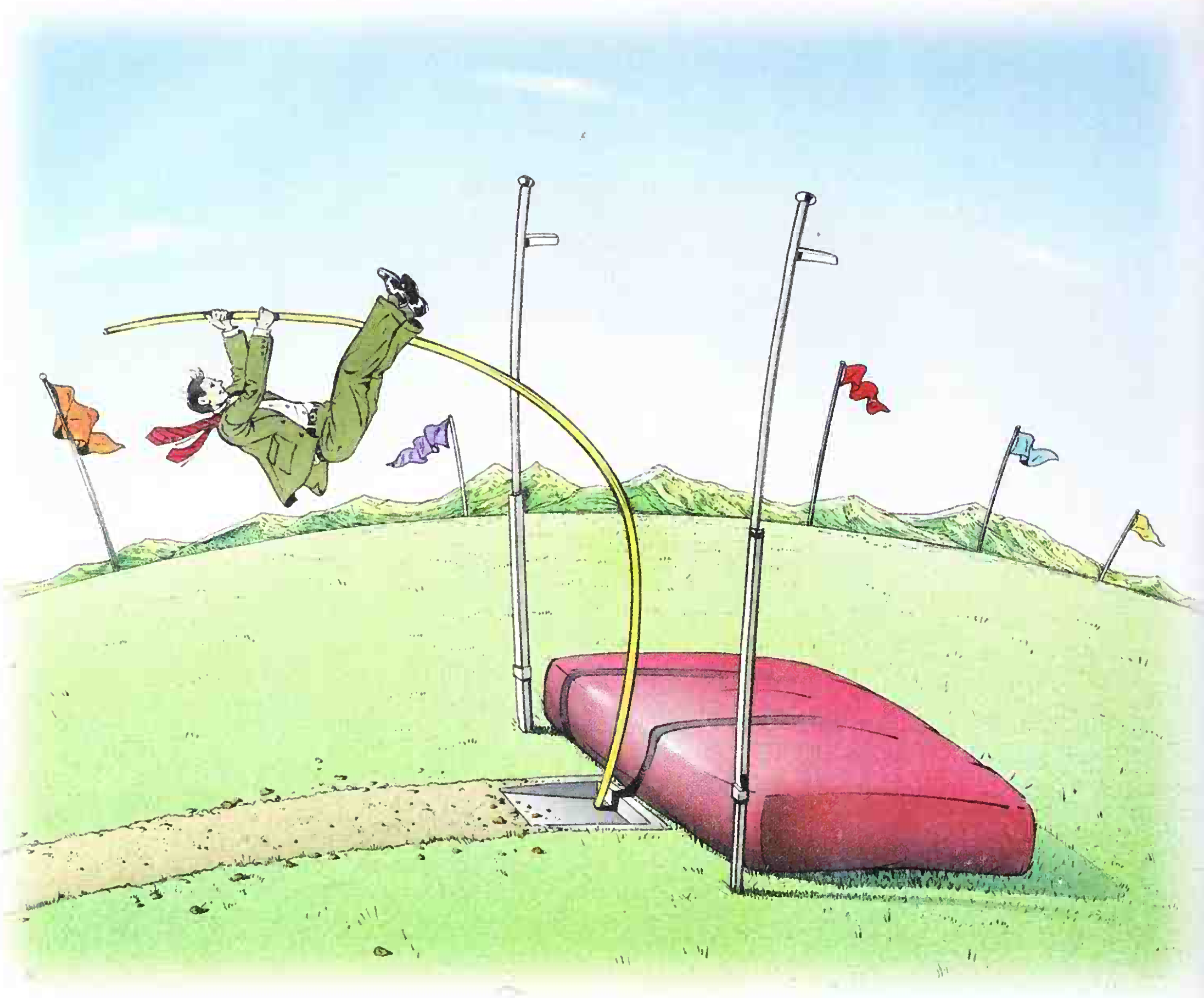

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e sure they have enough capital and
rience. "We use those restrictions to
ect the public," he says.

ome dissidents are trying to force
ge from within. Alan L. Davidson,
ident of tiny Zeus Securities Inc.
ericho, N.Y., tried in 1993 to get
ed to the NASD's board of governors
New York District 10. His plat-
was to break up the big market
ers' domination of the association's
ership. Among other things, Dav-
n questioned a
ch, 1993, bylaw
ndment that let
oard, rather than
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changes. The
says the amend-
brought it in line
other markets
as the New York
k Exchange. But
idson fumes that
power is being
entrated even
in the board."

e 30-year Wall
et veteran ruffled
NASD's feathers
he challenged its handpicked can-
te, Dennis C. Hensley, a managing
tor at J.P. Morgan Securities Inc.
a former NASD deputy general coun-
The five-member District 10 nomi-
g committee, including executives
Merrill Lynch & Co. and First
hattan Co., sent out a letter on a
letterhead slamming Davidson and
g members to vote for the com-
ee's nominee. But Davidson still
d up with 40% of the vote. "The
e NASD process has mutated into
ecial agenda of a few large firms,"
Davidson.

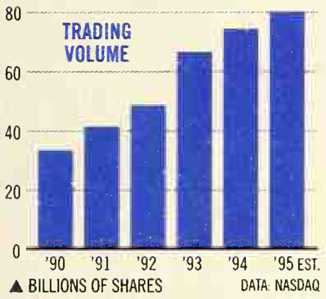
nfazed, Davidson launched the Inde-
lent Broker-Dealer Assn. He ex-
s to double the group's membership
0 by yearend. Growth would be
r, he says, but for the fear of small
that they would face retribution
the NASD or other firms. "Small
feel the NASD will retaliate. They
iate in ways that are never put in
ing," says Joseph Mays, a former
examiner and now a consultant.

essures from inside and outside are
nning to force the NASD to make
ges. Earlier this year, the NASDAQ
d increased the number of outsiders
two to five. More than a third of
NASD's 29-member board is from
de the securities business.

ut these moves aren't enough to
tall further pressure for change,
cially on the NASD's tight linkages
with NASDAQ. NASD supporters point out that the New York Stock Exchange and other exchanges have a similar combined organization. "But the legitimacy of those markets isn't being investigated by the Justice Dept. and SEC," says Junius W. Peake, a former NASD vice-chairman and professor at the University of Northern Colorado.

Fast Growth. Maybe Too Fast

Critics say booming volume has strained NASDAQ management



CHINESE WALL? Some academics advocate separating NASDAQ from the NASD. That would allow the NASD to perform its regulatory function without having to serve the interests of NASDAQ's membership. "There should be a separation," says Dale A. Oesterle, a professor at the University of Colorado School of Law. "Otherwise it's hard to get a market operating in the best interest of customers." Hardiman disputes the proposal, saying the system would lose synergies.

The Rudman committee likely won't recommend anything as radical as a spin-off but it might suggest a Chinese Wall between the NASD and NASDAQ members—particularly the influential major firms. One option under study is to separate management of the two organizations, which currently are both run by the same senior executives. Another is to move NASDAQ's headquarters from Washington to New York. But given the number of Rudman committee members with close ties to the association, many skeptics doubt the panel will propose much more than increasing independent board membership to 50%.

More pressure is likely to come from the SEC. It was embarrassed when Justice launched its price-fixing probe. And the commission's recent aggressiveness suggests it no longer rubber-stamps proposals the NASD sends over for approval—especially those that could hurt smaller firms or investors. The SEC might even become sufficiently fired up to force the ultimate reform: transforming NASDAQ into a fully electronic system with automatic execution to all investors. Market makers would no longer do trades over the phone and make money by keeping spreads suspiciously wide. NASDAQ would at last become what it has always claimed it already was: the stock market of the future.

By Michael Schroeder in Washington

Performance Measures: Your Standards For Success

Never has it been more vital for a company's management to ask: "Are we achieving our corporate objectives?" "Are we reaching our goals for customer satisfaction?" Or more simply: "How are we doing?"

The answers can be found in a company's performance measures. As vital signs, they communicate what's important throughout an organization: the corporate strategy from top management on down, process results from lower levels on up, plus control and improvements within processes. Performance measures tell people what and how they're doing as part of the whole.

The benefits of performance measures are clear. The first is customer satisfaction: With performance measures based on product characteristics or service attributes needed to satisfy customers, a company will always know its progress toward remaining competitive.

Other benefits? The right performance measures make process improvement not just possible but continuous. You can anticipate problems before they actually occur. Performance measures help break down barriers between "functional silos" and drive successful change throughout an organization.

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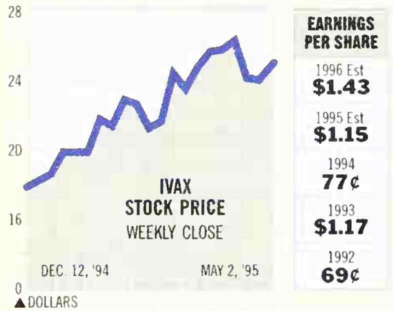
Inside Wall Street

BY GENE G. MARCIAL

IVAX MAY KEEP FOILING THE SHORTS

So far, short-sellers have been disappointed in Ivax (IVX). The stock, which has one of the largest short interest on the American Stock Exchange, has been on the rise, oddly enough—climbing to 25 from 17 in late December. And they are likely to continue to be frustrated. What's the scoop? Ivax, the nation's largest generic-drugmaker, may be merger-bound, whisper some of the pros. They are convinced that BASF, the German chemical-and-pharmaceutical giant, will soon acquire 20% to 25% of Ivax. That, says one New York money manager who has been accumulating shares, could ultimately lead to a merger. In such a deal, Ivax could be worth 50 a share, he estimates.

GOOD CHEMISTRY WITH BASF?



DATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

Ivax Chairman Philip Frost, who was scheduled to meet with BASF top brass in Germany in early May, would not confirm or deny any such speculation. He noted, however, that Ivax and BASF had formed a joint venture in late March to sell generic drugs in Europe.

The joint venture, Knoll Norton, will initially operate in Germany. (BASF subsidiary Knoll is a major pharmaceutical player in Europe, while Ivax' Norton Healthcare is No. 1 in generic drugs in Britain.) BASF couldn't be reached for comment.

Some analysts believe that Ivax is undervalued just in terms of its existing business. David Saks of Gruntal & Co. says the stock could well rise to the low 30s this year and 42 next year, even without a merger. He notes that the Food & Drug Administration recently approved Cefaclor—the seventh FDA approval for Ivax so far this year and easily the most significant. Cefaclor is the generic equivalent of Eli Lilly's Ceclor, an antibiotic used to treat certain respiratory, urinary, skin, and ear infections.

Cefaclor will be "a blockbuster for Ivax," says Saks, who estimates it could add sales of $50 million its first year. Lilly's Ceclor generated worldwide sales of $812 million in 1994.

Cefaclor sales will start showing up in Ivax' second-quarter results, figures Saks. He notes that Ivax has 35 generics and several proprietary products still in its pipeline. Ivax also makes and sells personal-care and diagnostic products.

Another bullish factor: Frost's undying romance with Ivax stock. He has accumulated 13 million shares—12% of the outstanding stock. Frost isn't fazed by the short-sellers' interest. "I like it—because they will have to scramble and cover [their short positions] when more good news rolls in."

HEADS IN THE SAND —AS CYRK SINKS

Remember Cyrk International (CYRK)? On Nov. 28, this column reported that some big-money pros were heavily shorting the stock. Cyrk shares were then trading at 40, and the shorts were convinced the stock would collapse to 10 in a year. Boy, were they right. By May 2, the stock had already plummeted to 11¼.

Is the big decline finished? Hardly. The short-sellers, including Carl Icahn, who is said to have made $10 million on his position, are betting that the stock will fall to less than 5. They believe Cyrk, which designs and makes products such as baseball caps and T-shirts for use in promotional campaigns, will be in the red by the second half of the year.

Did the analysts ignore what had become obvious to the shorts? One analyst who kept on projecting bullish results for Cyrk was John Weiss of Montgomery Securities, which was the sole underwriter of Cyrk. (On Dec. 1, Montgomery Securities issued a secondary offering, of 2.5 million shares, to the public at 36.) As late as May 2, the day the stock dropped 18% in one session, Weiss sent out a fast report—with a "buy" recommendation on Cyrk. He conceded that first-quarter earnings of 5¢ a share "were below our 15¢-to-20¢ estimate." One reason: Orders from its one major client, Philip Morris, were significantly below his rosy expectations.

Even so, Weiss doesn't see Cyrk losing money. He says Cyrk expects a purchase order from a large company in May. But he has slashed his second-quarter earnings estimate from a lofty 50¢ to 3¢ a share. And for all of 1995, he pared his estimate of $3.15 to 60¢. Icahn and the shorts are unimpressed. They think he'll be dead wrong again.

FALLEN ANGELS TO RESURRECT

Notwithstanding the market's climb to record highs, investment manager Tony Spare finds that bargains still abound. Several of his picks are "fallen angels"—former growth stocks that disappointed the Street and that have hardly budged in the bull market. He has been snapping up shares of Bristol-Myers Squibb (BMY), Tambrands (TMB), and Dun & Bradstreet (RND).

Spare considers Bristol-Myers, currently trading at 66, to be way undervalued. Seen by analysts mainly as a drug company, Bristol-Myers is also a "diversified international consumer-products company that's well-positioned for strong growth worldwide," insists Spare. Its balance sheet remains strong, he adds, and recent earnings disappointments "have masked its excellent cash flow and leading market-share position of its many products." He sees the stock hitting 75 in a year.

SPARE: *Bargains galore, even in this bull market*

The Tambrands line of feminine-protection products, says Spare, "ranks very high in market share worldwide." He feels encouraged by a strong balance sheet and by a record of 47 years of steadily increasing dividends. He thinks the stock, now trading at 43, is also cheap—and will rise to 55 during this year.

Dun & Bradstreet has made its name, notes Spare, on the strength of publishing and financial-database operations worldwide. The stock is buttressed, he says, by a strong cash flow and high dividend yield—of 5%. His target for the stock, now priced at 52, for the year is 60.

CHART BY ERIC HOFFMANN/BW

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TELECOMMUNICATIONS

CAN AT&T GET THROUGH TO JAPAN?

The American giant is finally making a serious push

Within hours of the earthquake that struck Kobe last Jan. 17, technicians at the network control center of Japan's national phone company, Nippon Telegraph & Telephone Corp., had to cope with a torrent of Kobe-bound phone calls—more than 50 times normal levels. Fortunately, NTT's damage-control experts had a new tool: AT&T had installed a $110 million system with four giant video screens displaying color-coded network maps that allowed frantic managers to quickly find solutions. "I shudder to think how much worse it would have been without the new system," says Minoru Matsuoka, a director of international procurement. "It functioned extremely well."

Those words must be sweet for AT&T, which, since entering Japan in the early 1980s, has gotten almost nowhere. It tried selling plain-vanilla telecom gear, let infighting break out among its business units, and launched a hodgepodge of joint ventures. Worse, AT&T did little to fight market barriers. The result: It's third in phone switches behind Northern Telecom Ltd. and L. M. Ericsson, and, say analysts, it could be outgunned by British Telecommunications PLC in data networks.

Clearly AT&T has immense potential. No single competitor can offer Japanese customers the U. S. giant's state-of-the-art technology and globe-spanning network services. Just ask a Japanese engineer. Michiyuki Uenohara, an executive adviser at NEC Corp. who spent 10 years learning the high-tech ropes at Bell Laboratories, can't quite hide his pleasure at AT&T's newfound sense of mission about Japan, despite the added competition. "I think they are getting themselves back on track," he says.

The phone giant decided to get serious about Japan last October. That's when CEO Robert E. Allen dispatched a 31-year company veteran, Louis C. Golm, to Tokyo to clean house. Golm, 53, had previously been in charge of marketing AT&T network services to U. S. businesses, and he is the highest-ranking corporate officer ever to lead Japan operations. His orders: Knit a cohesive team from disparate divisions—including the former NCR Japan, which dwarfs AT&T's other subsidiaries—and customize offerings for Japanese needs.

"BODY LANGUAGE." If anyone can accomplish such a transformation, AT&T watchers think it's Golm. For starters, he has clout at AT&T's Basking Ridge (N. J.) headquarters. Colleagues also say his manner—that of a kindly high school principal—goes over well with Japanese customers. Granted, he cannot speak Japanese and has no previous international experience. But Golm seems a tuned to local cultural quirks. "It a ways impresses me the way he pic up on Japanese body language," says key Japanese executive at AT&T Japa

GOLM: *Quietly stepping up pressure to open markets*

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Whatever his strengths, they seem to be working. AT&T sold 104 of its powerful model 3600 parallel computers last year, at $1 million to $10 million a pop, to customers such as Japan's top credit-card company, JCB International, and Nomura Securities' research arm. Another sal highlight: AT&T chips that process voi signals and record messages. They a in 2 million cordless phones made Tottori Sanyo Electric Co. AT&T recently proposed a chip to Tottori Sanyo for voice-activated dialing.

If there's a question mark over Golm, it's whether he'll take on Japanese bureaucrats. AT&T has always been the nice guy among foreign companies in Jap "They have no sense of going for t jugular," says one AT&T insider. But g ting tough can pay off. Motorola I lobbied loudly against barriers in t 1980s and offended Japanese offici

TOKYO TRADE SHOW: *AT&T has huge potential—and tiny market share*

AT&T

How it's building a team in Japan

DATA: COMPANY REPORTS, BUSINESS WEEK

livision,
rly NCR,
omputers
related
ipment

Partnership with KDD and NTT, the Japanese phone carriers, offering network services to multinational companies

Developing a new generation of video phones with Sharp

Partnership with Nippon Idou Tsushin Corp., a mobile-phone service provider, to develop wireless equipment

Joint venture with Industrial Bank of Japan, Fujitsu, Hitachi, and KDD to offer data links and Internet access

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and executives—but won nearly a quarter of the mobile-phone market.

lm says AT&T doesn't plan to take
an aggressive stand: "I don't ex-
to succeed here by walking across
treet and asking Ambassador [Wal-
Mondale to sell my products for
he says. But behind the scenes,
is applying pres-
Motorola offi-
say AT&T has
l in consultations
Washington
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S. Fukushima,
Japan's director
ıblic policy and
et development
a former deputy
Trade Representative, is known
trade hawk.

ght now, AT&T is asking the U.S.
e Representative to come down
on Japan in talks scheduled for
AT&T says NTT has refused to open
idding for a new mobile-phone system called PHS—which is similar to the Personal Communications Service setup being planned for the U.S.—after Japan agreed to procurement procedures with the U.S. last October. AT&T is designing switches for PHS with Nagoya-based Nippondenso Co. and wants into a market that analysts say will be worth over $600 million by 1997.

Golm's toughest challenge may be integrating the operations of the former NCR, purchased by AT&T in 1991 for $7.5 billion and renamed the Global Information Solutions Div. (GIS). NCR Japan, with a 75-year history in the country and its own Tokyo Stock Exchange listing, is about as Japanese as an American company can get. It has 5,000 employees, vs. the 600 or so who work for the rest of AT&T in Japan.

There's little coordination right now. GIS's Japanese executives are still listed in a separate AT&T directory and work in a different building. Worse, their pay ranks in the bottom third of foreign executives in Japan. Other AT&T employees rank in the top quarter. It does not help that GIS is coming off tough times. NCR's biggest business had been automated teller machines, and when Japan's economic bubble burst in 1990, sales plunged. With taxable income of $54 million in 1993, GIS sank to No. 42 among foreign corporations in Japan, from No. 19 in 1992. Hideaki Takahashi, head of GIS, is reversing the decline with sales of client-server computer networks. Revenues edged up 7% last year, to $1.16 billion.

Next, Golm wants to forge links between GIS and other AT&T businesses in Japan. Those units might snag some significant orders if they gain access to the old NCR accounts, which include top banks and retailers. Granted such synergies have not occurred in the U.S., but Golm says he'll make them happen. "Part of my coming here was a clear statement by Bob Allen that this is our fundamental strategy," he says. "I don't think anybody at AT&T misses that point."

MAJOR PRESENCE. Just in case, Golm installed himself in the GIS building. The troops are starting to get the message. GIS recently joined two other units in a business to furnish phone centers for distribution and service units of corporations. The business supplies equipment—GIS workstations and private branch exchange switches—and plans to add operators trained and employed by AT&T's phone services division. Bell Labs, too, is in on the synergy: It just melded its wireless computer technology with a system developed by GIS.

But competition for Japanese customers is heating up, particularly in the data-transmission services that AT&T is pushing. British Telecom has made Japan one of its top three priorities for its "Concert" phone service for multinationals and is on the prowl for Japanese partners. In March, AT&T landed NTT as a trial partner of its "WorldPartners" alliance, Concert's chief rival.

Golm says AT&T is committed to building a major presence in Japan, whatever the cost. The market may be hard to crack, but it's too big to ignore—and the competition is here. "If you're out of this market, if you don't know what they are doing, you are at risk," he says. It's a risk that AT&T can no longer afford to take.

By Larry Holyoke in Tokyo, with Douglas Harbrecht in Washington

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JR COMPANY THE THING IT NEEDS MOST.

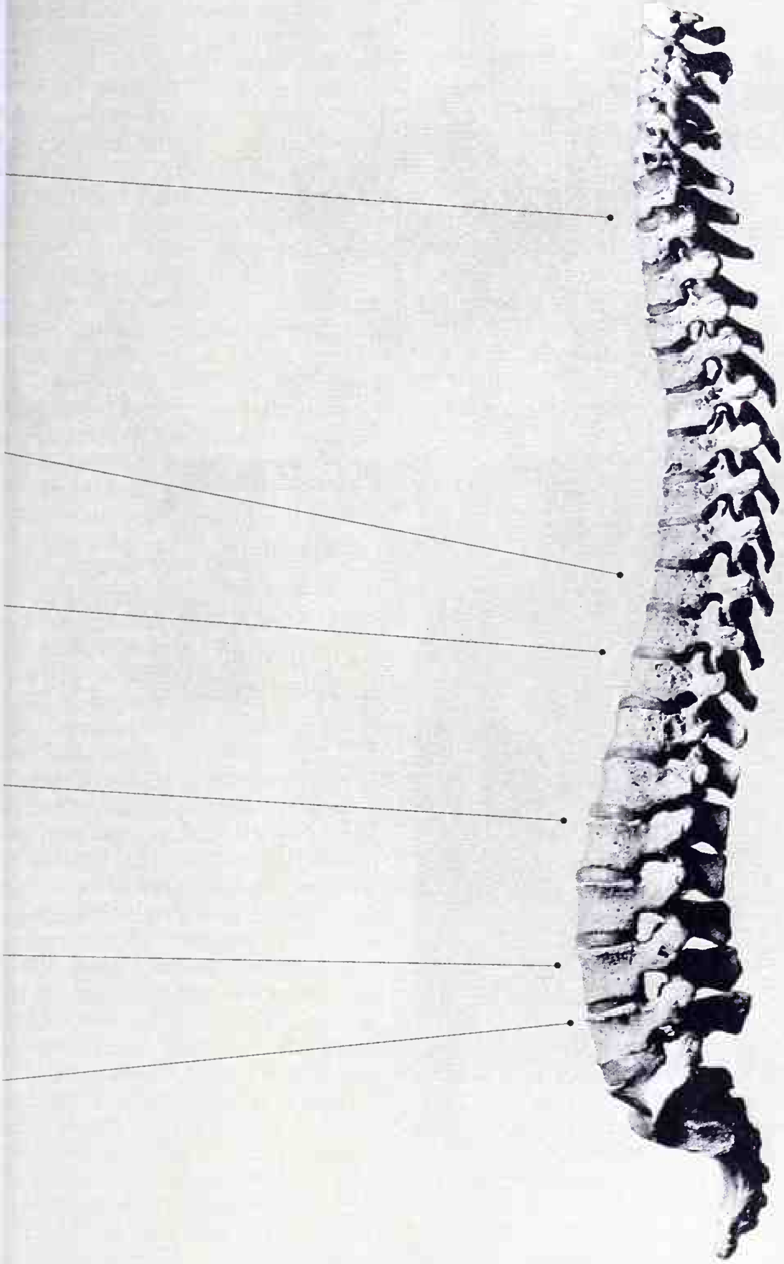

Fig. 1 Backbone

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v.compaq.com. We can help you get the performance you need. As well as the support.

COMPAQ

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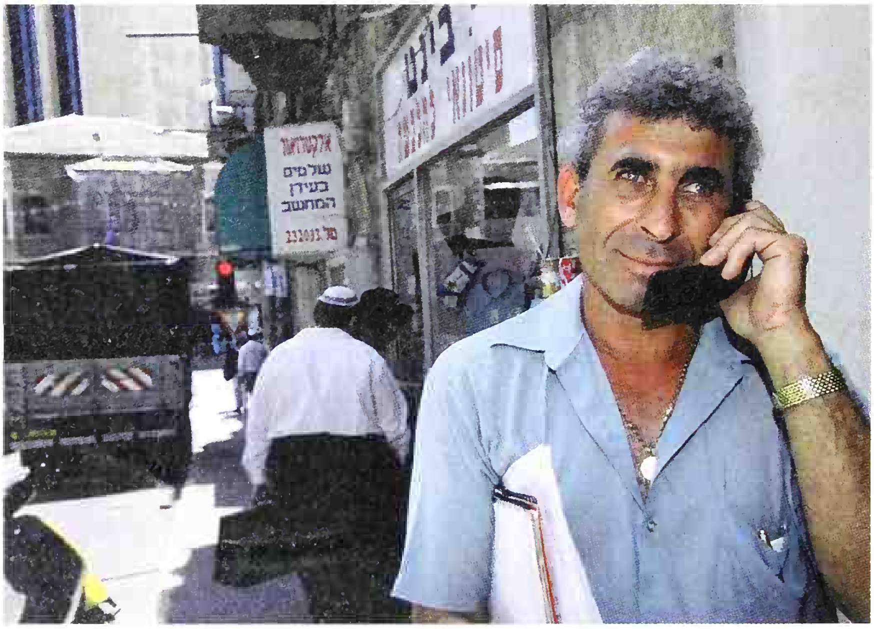
ly to disk drives running under Compaq IDA, IDA-2 or SMART SCSI Array controllers and models with advanced ECC memory.

TELECOMMUNICATIONS

HELLO, BEZEQ? COMPETITION CALLING

Israel's telecom monopoly is in good shape as rivals charge in

For Israel's Bezeq Telecommunications Corp., it's a tumultuous time in the Middle East phone business. Despite the ups and downs of the peace process, the state-owned phone monopoly's international traffic is soaring as phone lines buzz between Israel and its Arab neighbors. The Israeli government is opening up the international market to competition, forcing Bezeq to compete for foreign traffic for the first time. And on Apr. 28, Britain's Cable & Wireless PLC snapped up 7% of Bezeq's shares.



The purchase could mark the start of a major new alliance—and boost Bezeq's chances of staying ahead of the coming competition. "This is merely one step toward a strategic partnership," says Cable & Wireless Chief Executive James H. Ross. "We are looking to make a contribution to shaping Bezeq's future." The British company paid $101 million, or about 18% more than the Tel Aviv Stock Exchange market price, to buy the shares from private Israeli investors.

Industry analysts see the Cable & Wireless move as a bid to get its foot in Bezeq's door ahead of its global rivals. Although the 7% stake is big enough to get a seat on Bezeq's board, it does not guarantee the British company a strategic role in Bezeq. But Cable & Wireless is already talking about upping its interest to at least 20%. That could happen later this year when the government, which currently owns 76% of the company, plans to sell off 25% more of Bezeq's shares.

A Bezeq-Cable & Wireless partnership could benefit both companies. Bezeq, which was spun off a decade ago from Israel's Communications Ministry, needs help with pricing, technology, and investment strategies to compete against international giants lining up to enter the Israeli market. AT&T, MCI, Sprint, British Telecom, and Deutsche Telekom are all teaming up with Israeli partners to take part in bidding to provide international phone service from Israel. The government is expected to award two new licenses this summer.

KEY STAKE. For Cable & Wireless, an alliance with Bezeq would give it a key stake in the growing Middle East market. The company owns minority stakes in telecommunications companies all over the world but is strongest in the Far East, Europe, and the Caribbea "We see enormous growth in the Midd East," says Ross.

Bezeq Chief Executive Issac Ka calls the Cable & Wireless purchase "vote of confidence" in his company. I recent months, the Israeli company ha reduced its workforce by 13%. At 4.8 employees per 1,000 direct phone line Bezeq claims to be one of the world's 1 most efficient telecom companies. It network is already 85% digital, an within two years will be all digital.

Moreover, even after competition a rives, Bezeq will enjoy advantages. Th company will retain its monopoly statu as provider of domestic phone servic and international consortiums will hav to pay Bezeq access fees when the hook into its domestic system. Beze earned net income of $100 million o $2 billion in sales in 1994. Internation calls produced on third of revenue and more than ha of profits.

ON THE GO

Bezeq is losing cellular share, but that didn't stop Cable & Wireless from snapping up 7% of its stock

While Beze seems to be read for big-time com petition, it coul still be in for som surprises. Despit its entrenched p sition, the compa ny was severely challenged by its fir rival in the cellular-phone market. Las December, Cellcom, a joint venture be tween BellSouth Corp., Brazil's Saf brothers, and Israel's Discount Inves ment Corp., launched a cellular-phon network to compete with Bezeq's on year-old joint venture with Motoro Inc., Pelephone. Offering cut-rate price that it claims are the lowest in th world, the company signed up 80,0 subscribers in just four months.

Cellcom captured 33% of the marke but then its growth stalled because technical glitches. Now, by cutting pri es and improving network quality, Pel phone is trying to win customers bac Even so, the company's share of th cellular market is expected to fall belo 50% once Israel licenses a third cellul operator when the market reache 300,000 subscribers.

As Bezeq gears up to compete, i goal is to keep growing even as its ma ket share declines. "The market itself going to grow rapidly," predicts Bezeq Kaul. As competition picks up in th Middle East phone business, Cable Wireless hopes to be the strategic par ner to help Bezeq stay on top.

By Neal Sandler in Jerusalem an Paula Dwyer in London

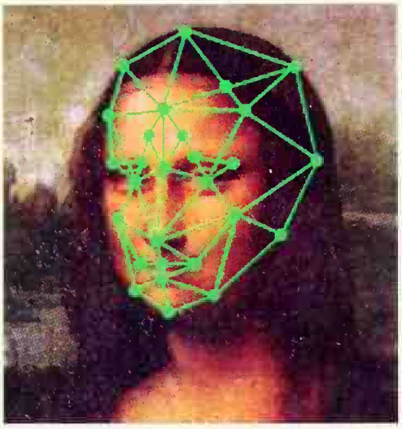
RICKI ROSEN/SABA

TED BY NEIL GROSS

FTWARE THAT ES SURGEONS AY VISION

SACHUSETTS INSTITUTE OF
nology electrical engineer
L. Grimson has the kind
igh-tech wizardry the
agon needs. He has de-
l advanced software that
computers pick out mili-
targets from a confus-
jumble of images. But a
nt sabbatical offered a
ce to try something dif-
nt. With colleagues at
Harvard Medical School,
Brigham & Women's
ital, he has created what
ors jokingly call "Ninten-
urgery"—a system that
"see" deep into the body
uide the surgeon's knife.
irst an MRI or CAT scan
tes a 3-D internal image
ay, the brain and its tu-
s. Next a laser scanner
a 3-D view of the out-
of the patient's body.
ison's software then uses
external data to super-
ose the internal scans
a live video image of the
ent—a process known as
stration. The result is the
best thing to X-ray vi-
As they operate, doc-
can see the patient
ugh the video camera
at the same time, exam-
lood vessels, organs, or
ors. Doctors have used
system in about a dozen
i surgeries. But Grimson
wider uses—for every-
g from sinus operations
throscopic knee surgery.

EIDOS NEVER FORGETS A FACE

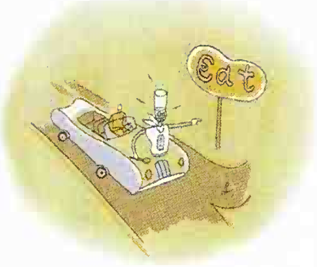


IN 1988, UNIVERSITY OF SOUTHERN CALIFORNIA neurobiologist Christoph von der Malsburg was pursuing a theory of how the visual cortex in the human brain processes information. When a person searches for a face in a crowd, he reasoned, the brain must strip away meaningless variations, focus on essential features, and confirm their relationships.

To test the theory, he and his colleagues at USC and Bochum University in Germany devised software that reduces images in a similar fashion. The system, called Eidos, worked so well that Germany's Deutsche Bank adopted it to beef up personnel security at its central computing facility in Dusseldorf. Other versions may soon be on sale in the U.S.

Eidos begins by scanning a facial image to find 45 landmarks—including eyes, nose, and lips—and frames them in a grid (photo). It describes those landmarks in terms of mathematical features called "wavelets," which emulate visual cells' responses in the brain. The software then compares the target image with other faces in a database. Deutsche Bank's system, running on a Pentium PC, takes just three seconds to verify the identity of the face, matching it against a stored template. The U.S. Army, which funded the USC research, is evaluating Eidos against competing recognition systems, including one developed at Massachusetts Institute of Technology's Media Laboratory.

A CAR COMPUTER FOR GASTRONOMY, NOT GAS MILEAGE



YOUR CAR'S COMPUTER WILL lead you by the nose if you have one of those fancy new systems with a dashboard screen that plots where you are on a detailed street map. Next, says Ray E. Eberts, an associate professor of industrial engineering at Purdue University, the computer may also help you sniff out your favorite chow.

Eberts is wrapping up a yearlong project that turned one car's computer into a restaurant guide on wheels. He fed the computer information on local eateries and built in a software "agent" that kept tabs on which restaurants the car visited. The agent, based on a "smart" program known as a neural network, quickly learned the passengers' dining preferences and how they varied depending on the day of the week, time of day, and number of occupants in the car. Assuming the patterns were fairly consistent, "the agent needed only about 10 examples to start making good predictions," says Eberts. After that, recommendations had a 90% accuracy rate or better. Eberts, who has worked six years on various neural network agents, hopes to show his mobile gourmet to Detroit's Big Three and other interested companies later this year.

OWING SEEDS AGAINST PROSTATE CANCER

OSTATE CANCER KILLS
,000 men each year. That's
d enough, but another
addening fact is that only
minority of the 240,000
en diagnosed annually
ve a virulent form of the
sease and need immediate
eatment. Sadly, even the
st tests can't tell precisely
who they are. So to be safe, many men with relatively benign tumors go through radiation therapy or surgery, which can cause incontinence and impotence.

A growing number of doctors are performing a procedure called "seeding," in which rice-size radioactive pellets are implanted directly in the prostate gland. The procedure has fewer side-effects and, according to a new study, may also offer good long-term results. In late April, Northwest Tumor Institute in Seattle reported that 100% of 111 prostate cancer patients were free of local recurrence five years after getting the implants. That rate beats external radiation treatment and is comparable to rates after surgery to remove the gland. The procedure costs half as much as surgery, and there are fewer cases of incontinence and impotence. Good news for patients and for Theragenics Corp. in Norcross, Ga., maker of the seeds used in the study.

(BOTTOM) ILLUSTRATION BY PHILIPPE LARDY

how

machine

we

The machine is
nothing
but nuts, bolts and chips
until infused with
ideas,
thoughts,
notions,
that come to it
through a keyboard.

TALK

To work faster,
to work seamlessly with
the machine,
you need a keyboard that is integrated
with Microsoft® Windows,®
with the software that runs
the machine.
The Microsoft Natural Keyboard.™
Launch applications and files,
select menu items
(cut, paste, move, insert),
connect to a network server,
move the cursor automatically
to a specific word,
to a command button,
with special keys,
with simple keystrokes.

to

Together with a Microsoft Mouse
that instinctively slows the cursor
when near an icon,
that knows when to double-click,
you have extensions of the machine,
of the software,
that fit comfortably beneath your hands.
That connect you
to a mean, lean,
thinking
machine.

e

Microsoft

WHERE DO YOU WANT TO GO TODAY?™

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SEMICONDUCTORS

NOW, TI MEANS 'TAKING INITIATIVE'

It's not waiting for others to find uses for its products

Sitting in a restricted Dallas research lab, Texas Instruments Inc. Vice-President Jack Harrod can't hide his glee as a no-name big-screen TV outshines the brand-name models on either side of it. Why so happy? The crystal-clear picture is courtesy of TI's patented digital mirror device (DMD)—a postage-stamp-size semiconductor covered with 400,000 mirrors that projects images far more efficiently and accurately than liquid crystals or cathode-ray tubes.

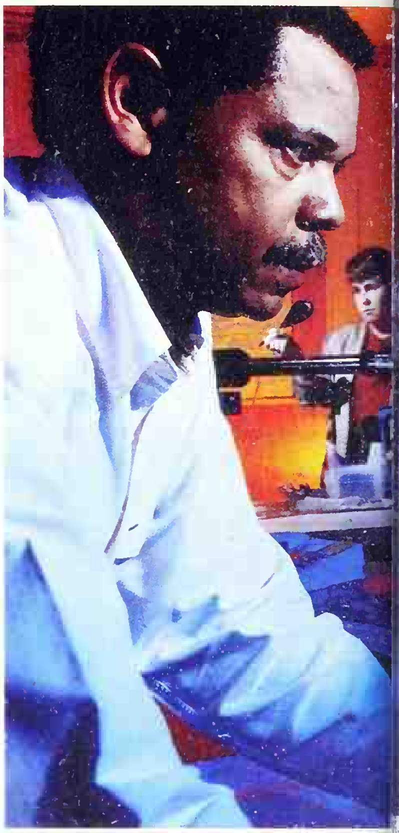
But the pretty picture tells only part of the story. After five years of research and development and more than $200 million, TI is determined to make its bet pay off. The company has hired optics scientists to make sure consumers will appreciate the sharper image. It has contracted with Asian TV screen makers to develop surfaces that can exploit DMD's higher resolution. And rather than sit around hoping TV makers take a look, TI has built prototypes of everything from portables to wall-size home theaters to grab their attention. "We're duplicating almost everything the TV maker would do," says Harrod. "But then, we're talking about changing the high-end display business forever."

Indeed, once-stodgy Texas Instruments is out to change the very nature of semiconductor marketing. With vast new markets such as TV set-top boxes and wireless PCs about to explode, analysts expect world chip sales to double, from $100 billion last year to $200 billion by 2000. TI isn't content to wait for manufacturers to come to it with chip orders. "Rather than just trying to understand where the world is going, we're trying to influence it as well," says Vice-Chairman William "Pat" Weber.

At first blush, this intense overhaul is hard to fathom. After all, TI is now one of the world's healthiest chipmakers. Its 1994 earnings jumped 49%—to $1.08 billion—on sales of $10.3 billion, up 21% from last year. Its stock recently hit an all-time high of $107. And while rivals are strapped for production capacity, TI has a network of cutting-edge chip factories financed, in part, by six joint-venture partners on three continents.

Now, Weber is attacking TI's weakest link: marketing. Famous for inventing—and then squandering—some of the most ingenious technologies in this century, including the original integrated circuit in 1958, TI has been left in the dust by rivals such as Intel, Hewlett-Packard, and Motorola. The solution, Weber says: to forge tighter links with key customers and do more industry spade work to create billion-dollar businesses for voice-activated phone systems, wireless notebook PCs, and a panoply of cellular-style equipment for tomorrow's electronic superhighway. "We want to be the company that makes this complex new digital world easy and useful," says Weber.

PIONEER. Bold visions, but can TI upstage such premier rivals as Intel, Motorola, and Canon, which have built electronic gold mines out of microprocessors, cellular phones, and PC printer engines? Certainly, TI has had successes. Almost singlehandedly, it pioneered the market for specialized sound and graphics chips known as digital signal processors. World sales of DSPs should grow from $2.6 billion in 1994 to $14.6 billion in 2000, predicts Forward Concepts Co. in Tempe, Ariz. But TI has had less luck building major businesses in software and portable computing.



IN THE LAB: *TI has a poor record in commercializing its own inventions*

Both are now linchpins in TI's stra gic overhaul. Impatient with the c pany's puny 4% sliver of the U.S. no book PC business, CEO Jerry R. Junk handed the unit to longtime resea director Pallab Chatterjee last fall. mandate: to bring sales up to $1 bill while achieving 20% return on asset or find a buyer for the unit.

Chatterjee quickly hired a team marketing consultants and commissio a four-month customer survey. It vealed that TI's products were too pensive and not well defined. But it indicated vast new opportunities. sponding to the report, Chatterjee pumping up marketing for its exist machines and adding new communi tions features to appeal to business r warriors. Later in the decade, Chat jee intends to field entirely new porta gadgets, merging TI's strengths in ch software, and communications.

Now, this effort to churn up new portunities is spreading throughout company. Most divisions will pres new strategic plans this month, lead

Where TI Sees Its Digital Future

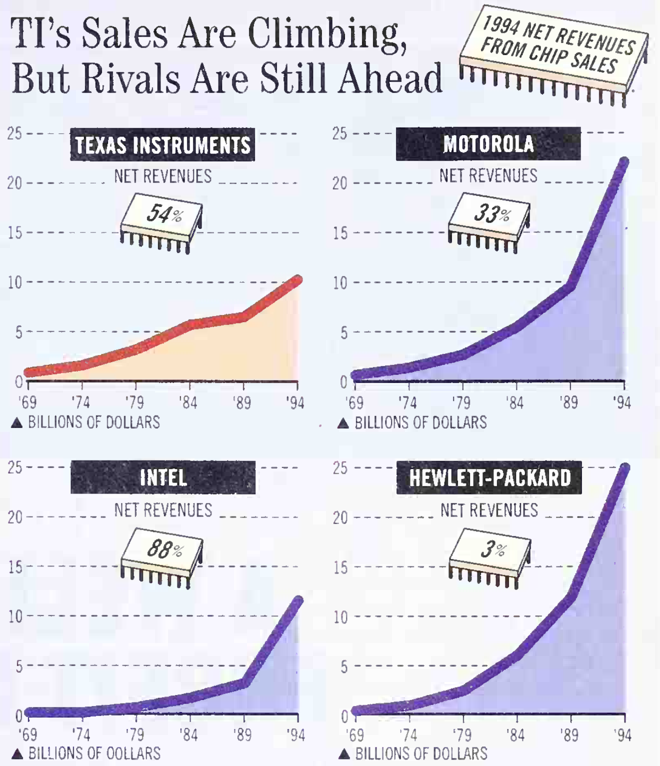
DIGITAL SIGNAL PROCESSORS

Riding shotgun to PC microprocessors or embedded in telecommunications and image-processing gear, DSPs are a booming opportunity—and TI's ace in the hole.

DIGITAL MIRROR DEVICES

The first all-digital display, these shimmering wonders could be the on tomorrow's HDTVs and PC mor and the engine for futuristic print

TI's Sales Are Climbing, But Rivals Are Still Ahead



DATA: COMPANY REPORTS, DATAQUEST INC.

ı overall corporate blueprint by
ɜnd. And while the company doesn't
to attack many consumer markets
·, it will surely look to move be-
its role as straight silicon provider.
ther it's TV display systems, com-
cations subsystems, or faster chips,
ıgenda is "to move up the value
ı, where people will pay more for
we do," says Weber. In addition to
r margins, the migration will help
pe with volatile markets.

gital mirror technology is likely to
ıe first major testing ground for
ıew company credo. In late April, TI
ınced its first partners: three mak-
f pricey digital projectors for busi-
presentations. And Britain's Rank
ıar Ltd. will soon unveil a DMD-
l projector for auditoriums. By fo-
g first on these high-end niches, TI
ıdying a major assault on the huge
onitor and TV markets for 1997.
ve decided not to just parade new
ıology in front of the market any-
," says Harrod.

ıe question is, will TI's customers
eciate the company's new way of
g business? After all, Sony Corp.
ɔther TV makers have pumped billions into display technologies of their own. And some of TI's strategic alliances may not be as solid as the company hopes. General Motors Corp. has developed a line of customizable microcontrollers with TI that could handle 80% of its processing needs. But the carmaker has yet to commit to production. Says R. Gary Daniels, a vice-president with Motorola, by far GM's largest processor provider: "Am I terrified of TI? The answer is no."

HAND-TAILORING. Still, TI does have an ace in the hole—DSPs. These single-minded racehorse chips, which can manipulate real-world sights and sounds far faster than general-purpose microprocessors such as Intel's Pentium, are already standard in cellular phones, hard disk drives, and PC sound cards—fast-growing markets all. After losing some momentum to rivals Motorola and AT&T Microelectronics in the early 1990s, says Forward Concepts President Will Strauss, TI took back 5% last year and now holds 43% of the DSP market on the strength of new products such as digital answering machines. "TI has broken from the pack by addressing new and different markets," he adds.

To keep its grip, TI developed processes to let customers hand-tailor their DSPs to include memory, power, and logic circuits from its vast portfolio. Sony, for example, designed TI's DSPs into the audio system in Boeing Co.'s new 777s, which gives every passenger up to 60 channels to choose from. By stuffing audio-compression circuitry onto the DSP, Sony eliminated the need to put circuit boards in each seat—landing TI a 10-year contract for about 600,000 DSPs.

Assuming TI can continue to help its customers with such innovation, it should keep outperforming the industry, analysts say. "There are going to be very attractive markets for all this stuff, and TI is going to be in a better position relative to most chip companies," says Montgomery Securities analyst Thomas A. Thornhill, who has a one-year target price of $140 a share. As it is, the pace of consumer-product acceptance has never been faster. Thomson Corp.'s RCA brand satellite televisions hit the 1 million production mark just 10 months after last fall's launch. That's one-quarter the time it took compact disks to reach the same volumes. Not surprisingly, TI's chips were inside the box. In fact, it's hard to think of an electronics-product launch for which TI couldn't supply the chips, the software, or even help with the product design. Customers may not ask for that yet. But Texas Instruments is ready and waiting.

By Peter Burrows in Dallas, with Larry Holyoke in Tokyo

LAPTOP COMPUTERS

ɔ double its 4% share by lever-
)SP strengths to provide multi-
ıph. It wants to create entirely
ɜts for digital road warriors.

VOICE-ACTIVATED SYSTEMS

Sold to phone companies and cable-TV providers, these computer subsystems will let Internet surfers navigate by voice rather than keyboard.

CHARTS BY ALBERTO MENA/BW

Corporate Scoreboard

A WELL-OILED PROFIT MACHINE

The first quarter saw a 30% leap. Not bad for an old-timer of a recovery

Corporate America's tireless profit machine continued to chug along in the first quarter. Powered by a combination of strong economic growth and lower operating costs, earnings for the 900 companies on BUSINESS WEEK's Corporate Scoreboard rose a robust 30% in the first quarter. That's slower than the phenomenal 71% advance posted in the previous quarter, but still nearly double the 16% growth rate of a year ago. "It's the Energizer Bunny recovery," says John Ryding, senior economist at Bear, Stearns & Co. "It just keeps on going and going

Credit the confidence of both consu ers and corporations for the profit e pansion. Gross domestic product gre 2.8% in the first quarter, down from 5.1 in the fourth, but still strong enough encourage spending. In the first qua

Earnings: The Winners and the Losers

THE INDUSTRIES

THE LEADERS

	PERCENTAGE CHANGE FROM 1994'S FIRST QUARTER
SAVINGS & LOAN	789%
PAPER	222
STEEL	211
FOREST PRODUCTS	178
NONFERROUS METALS	173
COMPUTERS & PERIPHERALS	159
DRUG DISTRIBUTION	103
CHEMICALS	92
TEXTILES	89
INSURANCE	75
CONSTRUCTION & ENG.	67
RETAILING	60
HOTEL & MOTEL	57
SEMICONDUCTORS	51
MACHINE & HAND TOOLS	46

THE LAGGARDS

	PERCENTAGE CHANGE FROM 1994'S FIRST QUARTER
AIRLINES	LOSS
POLLUTION CONTROL	–35%
AEROSPACE	–24
CONSTRUCTION/REAL ESTATE	–18
FINANCIAL SERVICES	–9
BANKS-EAST	–6
BROADCASTING	–3
BANKS-MIDWEST	–1
BUSINESS MACHINES	–1
TRUCKING & SHIPPING	1
ELECTRICAL PRODUCTS	2
ELECTRIC UTILITIES	3
HEALTH-CARE SERVICES	3
BANKS-SOUTH & SOUTHEAST	7
GAS UTILITIES	8

ALL-INDUSTRY AVERAGE: +30%

THE COMPANIES

WHO MADE THE MOST

	MILLIONS OF DOLLARS
GENERAL MOTORS	$2,154
EXXON	1,660
FORD MOTOR	1,550
GENERAL ELECTRIC	1,372
PHILIP MORRIS	1,363
IBM	1,289
AT&T	1,198
WAL-MART STORES*	1,030
AMERICAN HOME PRODUCTS	1,023
DUPONT	959
INTEL	889
CITICORP	829
MERCK	757
BRISTOL-MYERS SQUIBB	657
JOHNSON & JOHNSON	654

WHO LOST THE MOST

	MILLIONS OF DOLLARS
BANKERS TRUST NEW YORK	–$157
MERRY-GO-ROUND*	–114
USAIR GROUP	–97
JAMESWAY*	–89
POLAROID	–76
CINCINNATI BELL	–60
WESTPOINT STEVENS	–53
TIME WARNER	–47
LAFARGE	–42
HECHINGER*	–39
THIOKOL**	–35
CONTINENTAL AIRLINES	–30
ASHLAND***	–29
MELVILLE	–26
ZENITH ELECTRONICS	–24

* FISCAL FOURTH QUARTER ** FISCAL THIRD QUARTER *** FISCAL SECOND QUARTER

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES

capital spending on new plants and pment leaped by an annualized rate)%, compared to a 14% increase for f 1994. In all, sales rose 12% in the quarter, to $1.2 trillion—the biggest) in seven years.

nce again, recent corporate restructing gave some added thrust to profits. ıks to lower operating costs, profit gins widened to 6.5%, from 5.6% in 's first quarter. The weaker dollar helped. Corporations such as Coca- Co. and Procter & Gamble Co. reed better profits in the first quarin part because of higher sales in and Europe. Many economists be- the dollar's fall on currency markets continue to fuel U.S. export sales in e regions (page 126).

ıstaining this profit expansion is ıd to get tougher for the remainder 995. "As we go through this year into 1996, profit momentum will dish as the economy slows down," says ard D. Rippe, chief economist at ential Securities Inc. BUSINESS WEEK omists believe GDP growth will slow % by the final quarter.

URBING TRENDS. General Motors , headed the list of BUSINESS WEEK's 15 earners during the first quarter. nation's biggest carmaker saw its ts climb by 34%, to a record $2.2 n. A healthy consumer appetite for popular models as the Chevrolet ina and Blazer helped drive up GM's by 15%, to $43.3 billion. The benef cost-cutting were also obvious, as margins widened to 5%, from 4.3% 94's first quarter. Ford Motor Co.'s ıg performance earned it the No. 3 among the top profit performers, as arnings soared 71%, to $1.6 billion, 14% sales increase to $34.8 billion.

ne auto makers are unlikely to keep he torrid profit pace. Both GM and rsler reported weaker U.S. sales in l, the start of the second quarter. a closer look at first-quarter results als disturbing trends. For example, ı of Ford's profits came from European sales and gains by Ford's financial services. Earnings at Ford's U.S. auto operations rose only 1.1%, to $825 million, because of higher costs to develop new models and upgrade existing ones.

Evidence that Motown may be entering a slump was perhaps most striking at Chrysler Corp., which is fending off a hostile takeover by financier Kirk Kerkorian. Earnings at the company, which has no significant sales outside North America, fell 37%, to $592 million, on a 3% sales increase, to $13.6 billion. Chrysler's profits were also hit by a $115 million pre-tax charge to fix the rear latches on its minivans and the cost of production changeovers for its new minivan.

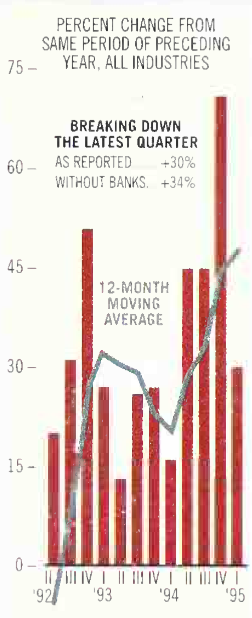
As a group, computer makers were big winners in the first quarter. IBM's profits surged 229%, to $1.3 billion, on an impressive 18% jump in sales to $15.7 billion. Sales of its mainframes were especially strong. Big Blue also benefited from the dollar's decline. Digital Equipment Corp. posted its first back-to-back profitable quarters in four years. The company earned $73.7 million, compared with a loss of $183.3 million a year ago. Sales increased 6%, to $3.5 billion. Cost-cutting, combined with rising demand for Digital's new Alpha 64-bit microprocessor, helped keep DEC in the black.

Not surprisingly, such cyclical industries as paper, steel, and chemicals posted strong gains as the economy rolled along. Rising demand and higher prices helped all three. Earnings at International Paper Co. rose 224%, to $246 million, as its sales rose 32%, to $4.5 billion.

The quarter also had its share of los-

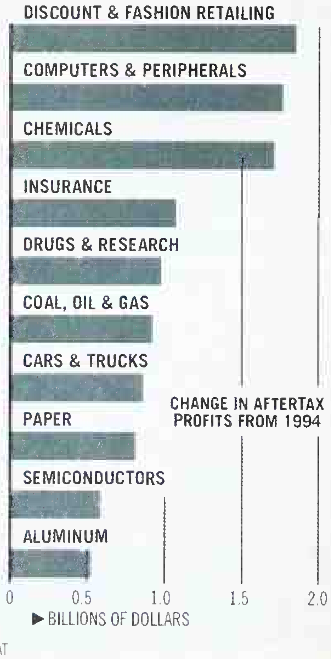
A Spotlight on First-Quarter Profits

AFTERTAX PROFITS QUARTER BY QUARTER



INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN THE QUARTER

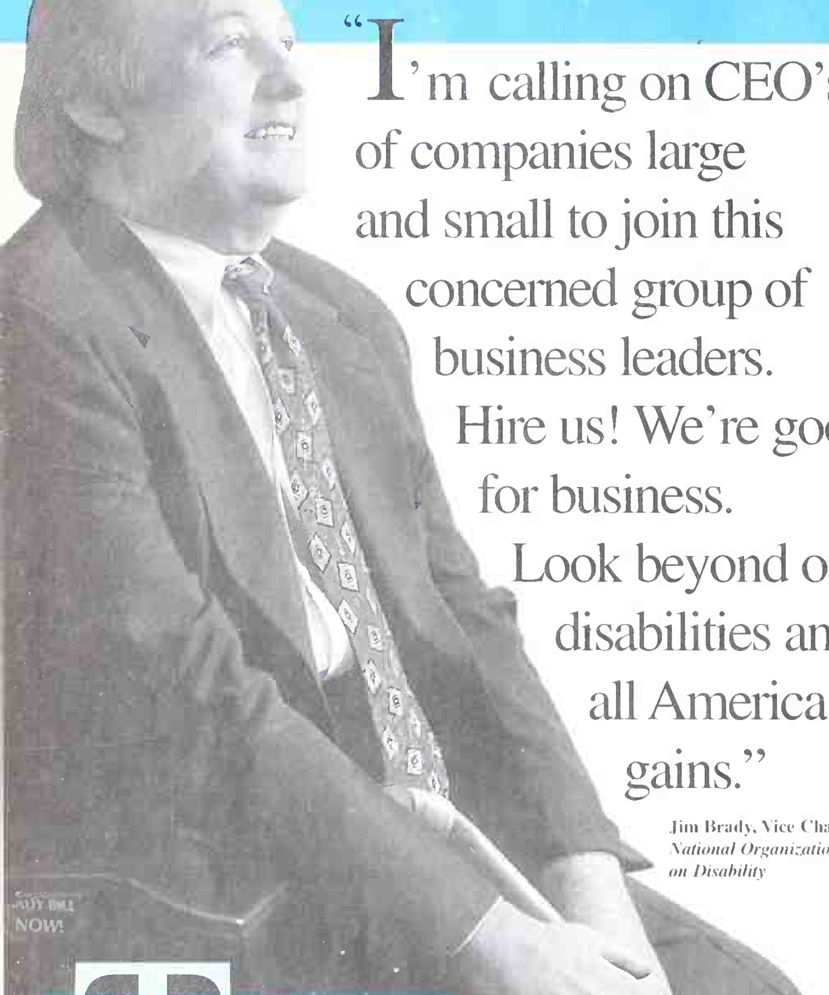
First-quarter profit increases are rarely this good. The 30% uptick posted this time is the largest earnings jump since 1984's first-quarter leap of 45%. How deep was the strength of the first quarter overall? Of the 67 industry groups in the scoreboard, 59 showed earnings gains. The 12% increase in sales is the largest such advance since the first quarter of 1988.



DATA: STANDARD & POOR'S COMPUSTAT

CHARTS BY ERIC HOFFMANN/BW

The National Organization
Salute Members of th



"I'm calling on CEO's of companies large and small to join this concerned group of business leaders. Hire us! We're good for business. Look beyond our disabilities and all America gains."

Jim Brady, Vice Chairman
National Organization on Disability

The CEO Council was established by the National Organization on Disability (N.O.D.) to expand the employment of people with disabilities.

Through their annual membership contributions, CEO Council members support N.O.D.'s important efforts to increase the participation of people with disabilities in the workplace and in all aspects of life.

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GTE Corporation, Charles R. Lee
Joseph E. Seagram & Sons, Inc., Edgar Bronfman, Jr.
Owl Hollow Enterprises, Philip E. Beekman
Shell Oil Company, Philip J. Carroll
Sunrise Medical Inc., Richard H. Chandler
United Capital Group, Inc., JP Mililli
The Washington Post, Donald E. Graham
Wm. Wrigley, Jr. Company, William Wrigley
Woolworth Corporation, Roger Farah

Leadership Circle

Anheuser-Busch Companies, Inc., August A. Busch, III
Bristol-Myers Squibb, Charles A. Heimbold, Jr.
Ford Motor Company, Alex Trotman
Fortis Benefits Insurance Company, Robert B. Pollock
GEICO, Louis Simpson
Johnson & Johnson, Ralph Larsen
Marriott International, Inc., J. W. Marriott, Jr.
MBNA America, Charles M. Cawley
New York Stock Exchange, William H. Donaldson
Northrop Grumman, Kent Kresa
The Riggs National Bank of Washington D.C., Joe L. Allbritton
Rockwell, Donald R. Beall
Southern National Corporation/B B & T, John A. Allison IV
U.S. Can Company, William J. Smith
Warner-Lambert Company, Melvin R. Goodes

Council Circle

Advocate Health Care, Stephen L. Ummel
Alcatel Network Systems, Inc., David E. Orr
Alex Lee, Inc., Boyd L. George
Allegheny Health, Education & Research Foundation, Sherif S. Abdelhak
Allianz Life Insurance Co. of North America, Lowell C. Anderson
Allstate Insurance Company, Jerry D. Choate
American Brands, Inc., Thomas C. Hays
American Home Products Corporation, John R. Stafford
Amgen, Gordon M. Binder
AMP Incorporated, William J. Hudson
Amsco International, Inc., Daniel Darry
Anchor Industries International, Vincent J. Naimoli
Apple Computer, Inc., Michael Spindler
Applied Materials, James C. Morgan
Archer Daniels Midland Company, Dwayne O. Andreas
Arizona Public Service Co., O. Mark DeMichele
Arthur Andersen & Co, SC, Lawrence A. Weinbach
Arthur D. Little, Inc., Charles R. LaMantia
Association of Trial Lawyers of America, Larry S. Stewart
Avis, Joseph V. Vittoria
Avon Products Inc., James E. Preston
Bank of America, Richard M. Rosenberg
Bank of Boston, Ira Stepanian
Baptist Healthcare System, Inc., Tommy J. Smith
Betz Laboratories, Inc., William R. Cook
Black & Veatch, P.J. Adam

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Boeing Company, Frank A. Shrontz
ll Worldwide, Charles Peebler
gestone/Firestone, Inc., Masatoshi Ono
klyn Union, Robert B. Catell
ning-Ferris Industries, William D. Ruckelshaus
iswick Corporation, Jack F. Reichert
oughs Wellcome Co., Philip R. Tracy
ornia Steel Industries, Inc., Takehiko Haga
brex Corporation, Cyril C. Baldwin, Jr.
Chall Group Inc., George Chall
npion Enterprises, Inc., Walter R. Young, Jr.
les Schwab & Co., Inc., Charles R. Schwab
Chase Manhattan Bank, N.A.,
iomas G. Labrecque
nical Banking Corporation, Walter V. Shipley
ron Corporation, Kenneth T. Derr
sler Corporation, R. J. Eaton
NA Group Insurance, John K. Leonard
CIT Group, Inc., Albert R. Gamper, Jr.
Clorox Company, G. Craig Sullivan
Coca-Cola Bottling Group (Southwest), Inc.,
lmund M. Hoffman
ate-Palmolive Company, Reuben Mark
cast Corporation, Ralph J. Roberts
monwealth Land Title Insurance Co.,
rbert Wender
iell Limited Partnership, William F. Connell
olidated Rail Corporation, David LeVan
erse, Inc., Gilbert Ford
International, Charles, R. Shoemate
c Corporation, Walter J. Zable
ng International Inc., Jeffrey B. Stone
tte & Touche, J. Michael Cook
Dexter Corporation, K. Grahame Walker
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nald K. Stager
sey Corporation, Donald N. Gray
Food Company, Inc., David H. Murdock
inion Resources, Inc., Thomas E. Capps
ino Sugar Corporation, Ed Makin
Communications Corporation, James L. Donald
Dun & Bradstreet Corporation,
bert E. Weissman
nt, Edgar S. Woolard, Jr.
iesne Light Company, Wesley W. von Schack
n Inc., Frederick J. Mancheski
ib Inc., Allan L. Schuman
G, Inc., John M. Kucharski
Insurance Companies, Bruce G. Kelley
son Electric Company, Charles F. Knight
& Young, Philip A. Laskawy
Corporation, Bruce C. Gottwald
and Development Corp., Maurice H. Berk
Chicago, Richard L. Thomas
Interstate Bancorp, Edward M. Carson
Financial Group, Terrence Murray
es Magazine, Malcolm S. Forbes, Jr.
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ral Electric Company, John F. Welch, Jr.
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Gillette Company, Alfred M. Zeien
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en Rule Insurance Company, John M. Whelan
Goodyear Tire & Rubber Company,
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bar Electric, Edward McGrath
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Ingersoll-Rand Company, J.E. Perrella
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Wyse Technology, Inc., Douglas Chance

Sustaining this profit expansion is bound to get toughe Many economists are expecting slower GDP growth

ers. As an industry, airlines were the worst performers. The first quarter is traditionally slow, as consumers stay home during the winter months. The biggest loser: USAir Group Inc., which lost $97 million, compared with a $196.7 million loss in the same period of 1994. The airline's revenues rose 5%, to $1.8 billion. Still, some analysts believe that after years of cost-cutting and tighter control of capacity growth, the industry may be poised for takeoff. "This is going to be the first profitable year they've had since 1989," says analyst

Michael W. Derchin of NatWest Securities Corp.

Elsewhere, trading setbacks continued to confound some banks. Bankers Trust Co. was the biggest loser of the quarter, with its red ink totaling $157 million, compared with a profit of $3 million a year ago. The bank's reve declined 1%, to $1.7 billion. Bank Trust blamed losses in its derivat business and Latin American tradin

Still, there were some bright spots the trading front. Citicorp, for insta reported a 36% profit gain, to $829 lion, thanks largely to foreign excha trading. More good news like that in months ahead and Corporate Amer profit momentum may keep goin while longer.

By Lori Bongiorno in New Y

FOR EXPORTERS, IT'S FOLLOW THE BOUNCING BUCK

The Dollar's Weakness Varies

Percent change in value against the dollar, Jan. 2-Apr. 28

MEXICAN PESO	–20%
CANADIAN DOLLAR	+3%
GERMAN MARK	+11%
JAPANESE YEN	+16%

DATA: BLOOMBERG FINANCIAL MARKETS

The dollar's slide against the yen and the mark may have ignited panic in Tokyo and Bonn, but it's sparking profits for U.S. business. Even before the dollar hit its recent low of 79 yen, U.S. companies with operations abroad were posting big first-quarter gains as their sales in foreign currency translated into more dollars back home. Furthermore, since the buck's latest drop is just beginning to boost export sales, profits—especially for exporters of capital goods and equipment—are likely to get a second currency kick.

Don't expect all exporters to benefit equally, though. The dollar's recent fluctuations have been uneven. It's down sharply against the yen and mark, but it has lost little against the Canadian dollar and has risen against the Mexican peso. Measured against all currencies weighted by trade volumes, the dollar is virtually unchanged. "The dollar doesn't benefit companies in some areas of the world, but does double duty in others," says John E. Silvia, chief economist of Kemper Financial Services Inc. in Chicago.

STRONG EDGE. Right now, the worst market for U.S. companies may be Mexico. January's crisis pushed the peso down sharply and sent Mexico into recession. While the peso has come back from its lows, U.S. offerings still look pricey to cash- and credit-strapped Mexicans. To the north, the Canadian economy is softening, weakening prospects for U.S. sales.

Asia may offer brighter opportunities for U.S. exporters. Growth in South Korea, China, and Southeast Asia promises to remain rapid. In many countries, such as Hong Kong, Taiwan, and Malaysia, currencies closely track the dollar. That gives U.S. companies a strong edge against Japanese competitors hobbled by *endaka*—the strong yen. A U.S. firm exporting to Hong Kong, for example, can undercut a Japanese competitor's price by 15.5%, thanks just to exchange-rate changes since the start of the year. The weak dollar may even help U.S. companies penetrate the Japanese market. Such high-tech exporters as Intel, Compaq, and Apple could benefit from increased Asian sales.

U.S. companies may also find stronger sales in Europe, where economies are recovering from a long downturn. Local manufacturers may not be able to match the prices of U.S. rivals. For example, the prices of German goods elsewhere in Europe are rising as the mark advances against other European currencies. Who could benefit? Kemper Financial projects smart earnings gains for General Electric Co. and Emerson Electric Co Such manufacturers usually do well at the start of an economic upturn.

PRICE SQUEEZE? The broader question about the dollar's impact on profits is whether U.S. manufacturers can keep up with rising export demand. Many export-oriented industries—machine tools, instruments, auto parts, and construction and data-processing equipment—are running at close to full capacity, and unfilled orders for capital goods are up 22% over a year ago. The squeeze could put upward pressure on prices both at home and abroad. But the U.S. slowdown now underway may eventually ease the pressure. "If we can redirect production from domestic sales to exports, prices won't be a problem," says L. Douglas Lee, chief economist of NatWest Washington Analysis. The dollar's drop may prove to be the profit windfall Corporate America is counting on.

By Mike McNamee in Washington

First Quarter 1995

CORPORATE SCOREBOARD

ossary

ES: Includes all sales and r operating revenues. For ks, includes all operating nues.

FITS: Net income before aordinary items. For banks, its are net income after rity gains or losses.

GINS: Net income from inuing operations before aordinary items as percent ales.

RETURN ON INVESTED CAPITAL: Ratio of net income before extraordinary items and discontinued operations, plus minority interest and interest expenses adjusted by tax rate (all for most recent 12 months), to latest available total funds invested in company.

RETURN ON COMMON EQUITY: Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

PRICE-EARNINGS RATIO: Based on Apr. 21, 1995, common-stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

GROWTH IN COMMON EQUITY: Annual percentage growth in common equity for latest five-year period.

GROWTH IN EARNINGS PER SHARE: Annual percentage growth in earnings per share, including all common-stock equivalents, for latest five-year period.

MARKET VALUE: Latest available shares outstanding times stock price on Apr. 21, 1995.

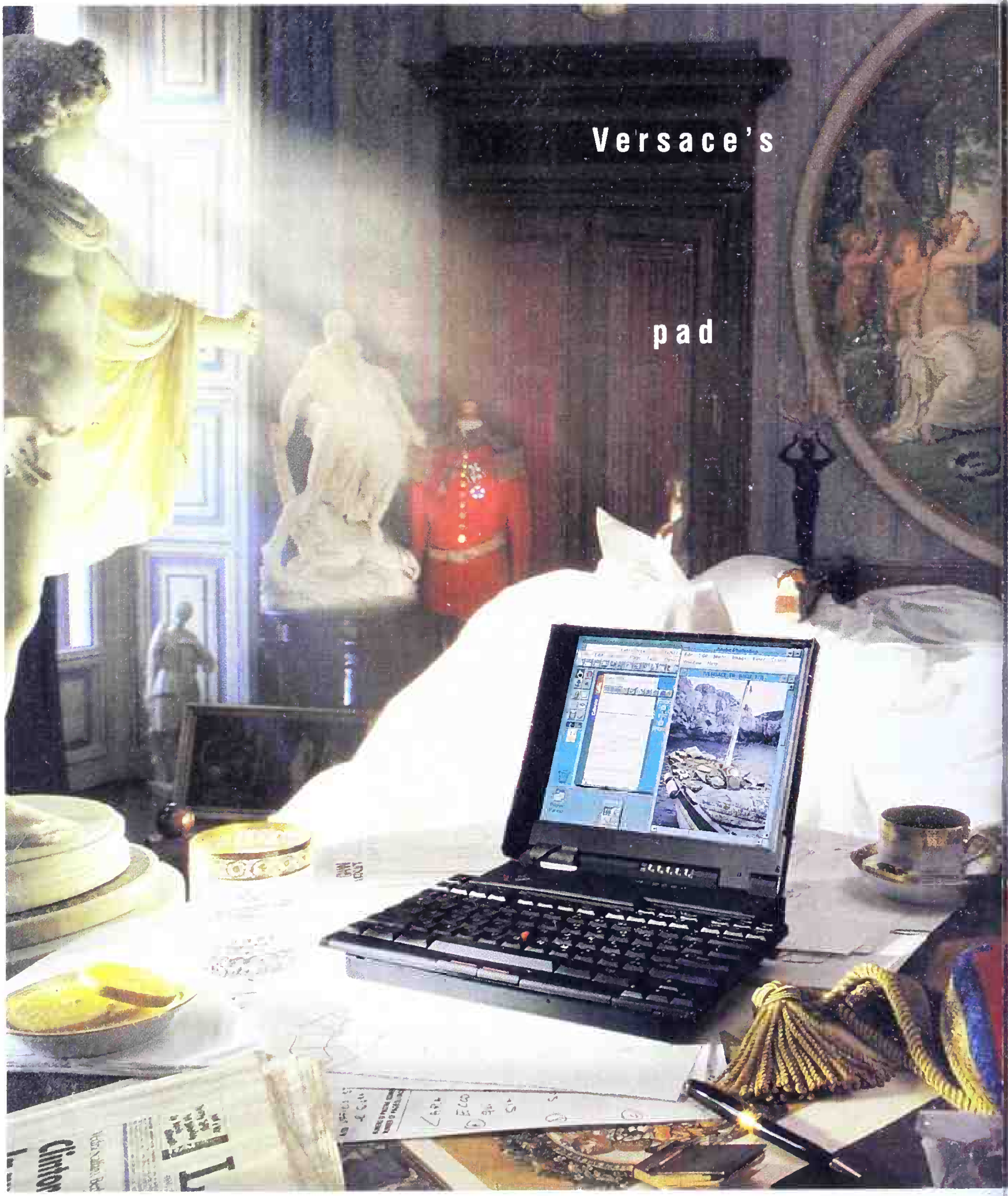
EARNINGS PER SHARE: For most recent 12-month period. Includes all common-stock equivalents.

MPANY	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE	
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	SHARES OUTSTANDING 4-21 $ MIL.	12 MONTHS' EARNINGS PER SHARE
LL-INDUSTRY COMPOSITE	**1160065.0**	**12**	**75315.6**	**30**	**6.5**	**5.6**	**11.4**	**16.9**	**16**	**4**	**6**	**3951457**	**2.56**
AEROSPACE & DEFENSE													
DUSTRY COMPOSITE	**22954.5**	**3**	**683.1**	**-24**	**3.0**	**4.0**	**9.6**	**11.0**	**19**	**1**	**9**	**54296**	**2.91**
EING	5037.0	-21	181.0	-38	3.6	4.6	7.0	7.5	26	9	3	19004	2.18
NCORP (1)	428.1	7	7.0	NM	1.6	NM	NM	-77.8	NM	9	NA	401	-0.08
NERAL DYNAMICS	753.0	-6	60.0	9	8.0	6.9	15.1	17.3	13	-9	0	2953	3.60
CKHEED MARTIN	5644.0	12	137.0	-50	2.4	5.4	NA	NA	NA	0	40	11136	NA
DONNELL DOUGLAS	3333.0	13	159.0	19	4.8	4.5	13.0	16.1	11	1	16	6931	5.29
RTHROP GRUMMAN	1617.0	33	54.0	4	3.3	4.3	3.3	2.8	65	8	-38	2456	0.77
HR (5)	219.8	-6	3.3	142	1.5	0.6	3.2	1.4	93	-20	0	219	0.13
NOSTRAND	346.0	7	-18.0	NM	NM	5.5	11.0	12.6	30	-4	-3	1708	1.79
IOKOL (6)	232.6	-13	-35.1	NM	NM	5.8	2.9	1.7	87	NA	NA	530	0.33
ITED TECHNOLOGIES	5344.0**	12	135.0	102	2.5	1.4	14.5	16.8	15	-7	-7	8958	4.92
AUTOMOTIVE													
DUSTRY COMPOSITE	**110500.5**	**14**	**5087.8**	**24**	**4.6**	**4.2**	**15.4**	**30.6**	**7**	**-10**	**13**	**113651**	**5.33**
) CARS & TRUCKS													
ROUP COMPOSITE	**94193.6**	**13**	**4373.3**	**24**	**4.6**	**4.2**	**15.2**	**32.3**	**6**	**-12**	**23**	**79889**	**6.44**
IRYSLER	13600.0**	3	592.0	-37	4.4	7.1	21.6	30.7	5	6	74	16656	9.16
RO MOTOR	34783.0	14	1550.0	71	4.5	3.0	11.8	26.2	5	-5	11	27621	5.58
NERAL MOTORS	43285.0**	15	2154.0	34	5.0	4.3	19.3	46.0	6	-28	NA	32908	6.88
VISTAR INTERNATIONAL (2)	1402.0	24	23.0	44	1.6	1.4	10.2	13.4	13	-6	NA	1042	1.08
CCAR	1123.7**	14	54.3	25	4.8	4.4	NA	18.3	8	3	7	1661	5.54
) PARTS & EQUIPMENT													
ROUP COMPOSITE	**12741.6**	**22**	**554.0**	**25**	**4.3**	**4.2**	**16.8**	**25.2**	**13**	**1**	**-19**	**26073**	**2.78**
LIEDSIGNAL	3419.0	15	198.0	17	5.8	5.7	18.4	26.4	14	-6	9	11113	2.79
RVIN INDUSTRIES	553.4	15	4.4	-14	0.8	1.1	NM	-4.5	NM	2	NA	495	-0.80
UMMINS ENGINE	1334.0	21	67.0	23	5.0	5.0	22.5	24.7	7	16	NA	1804	6.37
NA	1924.4**	21	59.2	24	3.1	3.0	17.4	25.5	10	-4	12	2470	2.42
TROIT DIESEL	530.6	31	12.0	43	2.3	2.1	11.7	14.3	14	NA	NA	556	1.65
GLE-PICHER INDUSTRIES (1)	197.6	11	13.0	18	6.6	6.2	NM	NM	NA	NA	-3	NA	4.60
TON	1731.0	26	108.0	46	6.2	5.4	15.7	21.8	12	5	10	4522	4.77
HLIN (4)	648.1	30	29.0	33	4.5	4.4	12.4	16.3	16	4	22	2211	2.30
DERAL-MOGUL	524.3	14	14.2	-5	2.7	3.3	8.4	10.0	12	6	20	621	1.49
AR SEATING	1043.5	52	17.0	160	1.6	1.0	14.5	32.9	13	33	NA	852	1.44
MITH (A. O.)	393.0	16	18.4	17	4.7	4.6	12.7	19.2	9	NA	126	510	2.87
TANDARD PRODUCTS (6)	265.0	19	6.9	-16	2.6	3.7	9.1	11.7	11	12	7	332	1.73
ABASH NATIONAL	177.6	52	7.0	45	3.9	4.1	14.4	16.9	22	67	30	587	1.41
C) TIRE & RUBBER													
ROUP COMPOSITE	**3565.4**	**10**	**160.5**	**13**	**4.5**	**4.4**	**17.3**	**20.6**	**11**	**6**	**49**	**7689**	**3.04**
OOPER TIRE & RUBBER	365.4	11	27.2	3	7.5	8.1	18.0	19.5	15	16	17	1955	1.55
OODYEAR TIRE & RUBBER	3200.0	10	133.3	15	4.2	4.0	17.1	20.8	10	4	27	5735	3.86

First quarter ended Feb. 28. (2) First quarter ended Jan. 31. (3) Second quarter ended Mar. 31. (4) Second quarter ended Feb. 28. (5) Second quarter ended Jan. 31. (6) Third quarter ended Mar. 31. (7) Third quarter ended Feb. . (8) Third quarter ended Jan. 31. (9) Fourth quarter ended Mar. 31. (10) Fourth quarter ended Feb. 28. (11) Fourth quarter ended Jan. 31. *Sales include excise taxes. **Sales include other income. ***Sales include excise taxes d other income. †Revenues from some major subsidiaries are not included in consolidated sales; parent's share of earnings is included in profits. NA = not available. NM = not meaningful. Earnings per share are for latest 12 months, t necessarily for end of most recent fiscal year; they include all common-stock equivalents but exclude extraordinary items.

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES

(Gianni)



The IBM ThinkPad 701C: *4.5 lbs*[1], *expandable full-size keyboard, 10.4″ TFT color screen (measured diagonally), 486DX4 75MHz processor, up to 720MB*[2] *hard drive, up to 24MB RAM, ThinkPad EasyServ™ courier repair service*[3]. *For an IBM Authorized Business Partner,* **call 1 800 772-2227.**

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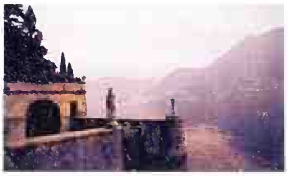
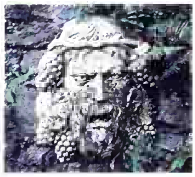
[1] With battery, excludes external disk drive. Weight may vary. [2] MB = million bytes. [3] Available only in the U.S. and Canada. No additional charge during warranty. IBM and ThinkPad are registered trademarks and There is a difference and ThinkPad EasyServ are



From metal-mesh evening gowns to red polyvinyl suits, *Gianni Versace* has earned a reputation for boldly creative designs. And lately, they're brought to life on a new IBM ThinkPad® 701C. Working from the bedroom of his Lake Como villa, Versace draws on neoclassical surroundings for design inspiration, using his ThinkPad to freely experiment with color and style. An approach that, uniquely, marries 18th-century art with 20th-century technology.



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CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE SHARES OUTSTANDING 4-21 $ MIL.	1 MON EARN PE SHA
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %		
3 BANKS													
INDUSTRY COMPOSITE	**60031.6**	**13**	**7270.9**	**2**	**12.1**	**13.4**	**16.8**	**15.8**	**9**	**17**	**32**	**251922**	**4.**
(A) BANKS - EAST													
GROUP COMPOSITE	**28231.0**	**6**	**2903.7**	**-6**	**10.3**	**11.6**	**18.0**	**15.6**	**9**	**15**	**70**	**98488**	**4.6**
BANK OF BOSTON	1191.6	38	125.3	22	10.5	11.9	NA	16.3	8	10	35	3370	3.
BANK OF NEW YORK	1236.0**	30	213.0	20	17.2	18.7	NA	18.5	8	10	25	5977	4.
BANKERS TRUST NEW YORK	1695.0**	-1	-157.0	NM	NM	9.6	20.0	6.1	17	16	3	4147	3.
BAYBANKS	240.8**	23	30.5	37	12.7	11.3	NA	14.8	10	9	16	1159	6.0
CHASE MANHATTAN	2714.0**	-8	260.0	-29	9.6	12.4	NA	14.0	8	14	14	7707	5.
CHEMICAL BANKING	3536.0**	17	396.0	24	11.2	10.6	NA	13.3	8	32	69	10025	5.0
CITICORP	6859.0	-11	829.0	36	12.1	7.9	22.4	24.2	6	10	54	18717	7.6
FIRST FIDELITY BANCORPORATION	684.5**	11	112.9	4	16.5	17.7	14.6	16.4	9	16	16	4019	5.2
FLEET FINANCIAL GROUP	1175.9**	9	164.1	21	14.0	12.6	14.2	21.2	8	9	9	4355	3.
INTEGRA FINANCIAL	296.4**	7	40.2	-14	13.6	16.8	12.6	18.9	9	14	37	1401	4.
MELLON BANK	1084.0**	13	170.0	9	15.7	16.3	NA	9.8	15	26	7	5703	2.
MERIDIAN BANCORP	331.5	18	41.2	2	12.4	14.5	14.1	13.4	11	13	10	1849	2.8
MIDLANTIC	285.6**	13	53.3	0	18.7	21.1	18.9	20.7	7	-2	-6	1882	5.
MORGAN (J. P.)	3358.0**	19	255.0	-26	7.6	12.2	24.3	12.2	12	20	13	12412	5.
PNC BANK	1261.2**	9	125.7	-39	10.0	17.8	7.5	12.0	11	12	25	5919	2.2
REPUBLIC NEW YORK	711.0**	21	87.5	10	12.3	13.5	8.8	15.8	8	14	123	2598	5.8
SHAWMUT NATIONAL	676.7**	25	62.6	-19	9.3	14.2	NA	10.2	16	10	NA	3231	1.
STATE STREET BOSTON	580.5**	27	54.3	0	9.4	11.8	27.3	17.1	12	16	14	2457	2.6
UJB FINANCIAL	313.3**	19	40.0	32	12.8	11.5	15.2	13.1	11	6	2	1561	2.
(B) BANKS - MIDWEST													
GROUP COMPOSITE	**13318.3**	**20**	**1801.6**	**-1**	**13.5**	**16.3**	**15.9**	**16.6**	**10**	**19**	**13**	**66813**	**3.0**
BANC ONE	2179.5**	13	302.6	-7	13.9	17.0	14.7	13.4	13	29	11	11860	2.
BOATMEN'S BANCSHARES	718.4**	16	85.4	-13	11.9	15.8	17.7	16.1	10	18	14	3390	3.
COMERICA	684.2	32	100.0	10	14.6	17.6	NA	16.6	9	33	5	3390	3.
FIFTH THIRD BANCORP	339.5**	22	66.1	14	19.5	20.8	20.1	18.3	13	15	16	3252	3.
FIRST BANK SYSTEM	699.4	20	133.8	20	19.1	19.1	15.0	20.6	11	23	20	4479	3.
FIRST CHICAGO	1557.1**	32	195.1	1	12.5	16.4	20.7	16.4	8	12	18	4909	7.
FIRST OF AMERICA BANK	526.0**	20	47.4	-19	9.0	13.3	13.3	13.3	10	18	5	2168	3.4
FIRSTAR	387.2	18	35.2	-39	9.1	17.5	NA	14.5	10	18	13	1984	2.
HUNTINGTON BANCSHARES	398.9**	10	53.9	-19	13.5	18.4	NA	16.3	10	15	17	2409	1.
KEYCORP	1416.4**	11	173.9	-17	12.3	16.4	NA	17.7	8	NA	NA	6545	3.
MARSHALL & ILSLEY	319.4**	12	46.1	20	14.4	13.5	8.1	9.4	20	12	1	1885	1.
MERCANTILE BANCORPORATION	187.6**	5	44.1	11	23.5	22.3	14.3	15.6	10	22	116	1604	3.8
NATIONAL CITY	773.3**	19	111.0	7	14.4	16.0	15.7	17.5	10	12	6	4132	2.
NBD BANCORP	992.4	32	140.9	15	14.2	16.3	14.7	17.2	9	17	6	4828	3.
NORTHERN TRUST	422.8**	25	49.3	9	11.7	13.4	15.8	16.1	12	17	10	2055	3.2
NORWEST	1716.2**	20	216.8	14	12.6	13.4	NA	23.9	10	22	26	7922	2.
(C) BANKS - SOUTH & SOUTHEAST													
GROUP COMPOSITE	**10104.8**	**23**	**1334.9**	**7**	**13.2**	**15.1**	**NA**	**15.6**	**9**	**21**	**15**	**47473**	**4.4**
AMSOUTH BANCORPORATION	367.5**	37	40.1	3	10.9	14.5	11.5	9.8	14	19	8	1858	2.
BANPONCE	281.5**	24	33.7	17	12.0	12.6	NA	13.7	9	17	5	1051	3.
BARNETT BANKS	882.2**	19	128.7	9	14.6	15.9	NA	16.5	9	14	15	4413	4.
CRESTAR FINANCIAL	318.9**	14	45.1	11	14.1	14.4	NA	15.4	10	11	-2	1731	4.
FIRST UNION	1753.3**	21	236.9	7	13.5	15.4	NA	16.9	8	23	19	7790	5.2
NATIONSBANK	3720.0**	23	443.0	6	11.9	13.8	NA	15.6	8	35	13	13823	6.
REGIONS FINANCIAL	271.0**	25	40.2	16	14.8	16.0	12.2	14.9	10	16	15	1564	3.
SIGNET BANKING	370.6**	17	42.2	-21	11.4	16.7	14.5	12.5	9	9	15	1275	2.
SOUTHTRUST	387.5**	36	46.8	15	12.1	14.3	14.5	15.8	10	20	14	1710	2.2
SUNTRUST BANKS	903.4**	18	136.0	7	15.1	16.6	15.6	15.4	12	12	11	6276	4.
WACHOVIA	848.9**	25	142.2	14	16.7	18.4	11.2	16.9	11	14	12	5983	3.
(D) BANKS - WEST & SOUTHWEST													
GROUP COMPOSITE	**8377.4**	**22**	**1230.7**	**30**	**14.7**	**13.7**	**NA**	**15.5**	**9**	**19**	**9**	**39148**	**5.7**
BANCORP HAWAII	254.4**	11	28.2	-18	11.1	15.0	NA	11.4	11	19	8	1171	2.
BANKAMERICA	4506.0	28	611.0	19	13.6	14.6	NA	12.8	9	30	7	18559	5.
FIRST INTERSTATE BANCORP	1189.9**	21	212.0	15	17.8	18.7	NA	23.6	8	11	7	5602	9.
FIRST SECURITY	291.4**	37	35.6	7	12.2	15.5	NA	16.0	8	17	15	1178	2.8
U. S. BANCORP	508.8**	13	66.5	NM	13.1	NM	NA	14.4	12	10	-1	2711	2.
UNION BANK	359.9**	23	44.3	448	12.3	2.8	10.0	9.1	14	7	-16	1406	2.8
WELLS FARGO	1267.0**	6	233.0	15	18.4	16.9	15.5	24.3	11	7	17	8521	15.8
4 CHEMICALS													
INDUSTRY COMPOSITE	**39080.2**	**22**	**3558.5**	**92**	**9.1**	**5.8**	**14.9**	**21.3**	**14**	**-3**	**-9**	**148442**	**3.0**
AIR PRODUCTS & CHEMICALS (3)	982.9	14	88.6	556	9.0	1.6	10.5	14.6	18	9	-1	6219	2.8
ALBEMARLE	313.3	30	14.6	36	4.7	4.4	6.8	9.6	16	NA	NA	908	0.8
ARCO CHEMICAL	1141.0	51	126.0	180	11.0	5.9	13.3	21.1	13	0	-8	4384	3.
CABOT (3)	481.3	11	46.4	108	9.6	5.1	14.6	20.3	13	0	8	1456	3.
CYTEC INDUSTRIES	310.7	20	22.1	169	7.1	3.2	23.0	66.5	9	NA	NA	492	4.
DEXTER	266.8	14	10.5	13	3.9	4.0	9.4	10.9	14	0	-3	545	1.
DOW CHEMICAL	5962.0**	31	584.0	238	9.8	3.8	12.3	16.3	14	-1	-22	19399	4.8
DUPONT	10502.0***	14	959.0	49	9.1	7.0	16.7	24.1	14	-7	-11	43414	4.4
EASTMAN CHEMICAL	1232.0	25	132.0	136	10.7	5.7	16.8	31.8	11	NA	NA	4487	4.

RPORATE SCOREBOARD

ANY	SALES		PROFITS				RETURN						
					MARGINS					5-YEAR GROWTH			
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	MARKET VALUE SHARES OUTSTANDING 4-21 $ MIL.	12 MONTHS' EARNINGS PER SHARE
ARO	694.5**	25	27.6	21	4.0	4.1	19.2	20.0	30	-3	-5	3602	1.28
	234.3	0	21.5	54	9.2	6.0	15.2	25.3	13	-13	-17	1258	0.84
	342.9	21	13.1	16	3.8	4.0	10.9	13.7	17	3	23	762	1.61
MISSISSIPPI (6)	176.3	36	19.7	305	11.2	3.7	19.1	27.6	9	-3	-4	516	2.75
(H. B.) (1)	295.6	22	6.0	49	2.0	1.7	9.9	11.9	16	8	11	527	2.34
	336.2	29	21.4	206	6.4	2.7	20.1	30.1	11	NA	NA	718	2.61
A GULF	314.0	63	60.2	373	19.2	6.6	50.2	544.6	8	NA	-22	1355	4.01
CH (B. F.)	594.0	18	17.6	259	3.0	1.0	8.0	8.7	17	-10	-33	1199	2.73
(W. R.)	1345.2	25	47.5	24	3.5	3.5	5.9	6.2	54	-5	-22	4892	0.97
LAKES CHEMICAL	569.0	27	68.3	2	12.0	14.9	20.1	21.4	14	18	20	3870	4.08
(M. A.)	492.7	27	12.0	93	2.4	1.6	7.4	9.6	19	-7	-12	892	1.32
OBAL (6)	550.0	34	45.7	746	8.3	1.3	13.3	16.2	13	-8	NA	1426	3.83
LAVORS & FRAGRANCES	373.6	15	70.0	19	18.7	18.2	23.7	23.5	24	4	10	5643	2.13
ATIONAL SPECIALTY PRODUCTS	179.9	22	15.1	47	8.4	7.0	NA	8.7	15	NA	NA	762	0.50
E	196.8	23	24.6	35	12.5	11.4	21.8	21.0	19	11	7	1707	2.51
OL	416.7	4	49.1	13	11.8	10.8	18.9	20.9	13	3	4	2270	2.77
LL PETROCHEMICAL	1174.0	42	127.0	477	10.8	2.7	33.3	520.6	6	37	-41	1950	4.10
NTO	2318.0	16	229.0	18	9.9	9.7	17.1	22.3	14	-7	2	9104	5.71
N INTERNATIONAL (6)	921.0	14	89.9	26	9.8	8.8	17.1	18.8	15	8	11	4252	1.89
CHEMICAL	315.4	-6	37.8	12	12.0	10.1	13.4	16.6	26	5	-1	2309	1.31
STRIES	250.9	24	13.1	NM	5.2	NM	-0.6	NM	NM	NA	NA	721	-0.08
	766.1	27	38.4	151	5.0	2.5	11.6	13.5	12	-1	-11	1349	4.55
R	756.0	24	65.0	55	8.6	6.9	16.4	25.8	15	NA	NA	3223	1.60
HAAS	985.0**	15	79.0	18	8.0	7.8	12.7	18.2	14	3	0	3875	3.97
AN (A.) (4)	251.3**	48	13.1	46	5.2	5.3	13.4	14.5	22	15	6	1145	1.39
(3)	236.1	14	14.8	14	6.3	6.3	10.4	15.5	16	142	346	376	1.28
G CHEMICALS (3)	303.9	96	56.1	NM	18.5	1.2	34.6	92.8	7	-7	-34	696	1.78
INDUSTRIES	443.3**	71	33.0	NM	7.4	NM	11.3	21.2	8	-3	11	830	1.28
CARBIDE	1453.0	29	230.0	265	15.8	5.6	24.0	36.2	8	-12	-15	4332	3.63
	602.5	9	29.8	35	4.9	4.0	9.8	12.2	14	9	2	1579	2.04
NGLOMERATES													
TRY COMPOSITE	**39502.8**	**14**	**2446.4**	**24**	**6.2**	**5.7**	**13.1**	**21.5**	**15**	**0**	**4**	**153690**	**3.29**
TANDARD (3)	2445.8**	24	49.1	29	2.0	1.9	6.0	7.1	49	12	-15	3873	1.46
INDUSTRIES	356.3	7	23.5	14	6.6	6.2	33.9	NM	13	NA	NA	1250	1.39
	858.2	9	21.5	25	2.5	2.2	14.3	26.4	15	-18	-17	2302	1.65
L ELECTRIC	15126.0**	18	1372.0	13	9.1	9.5	14.0	23.6	15	5	7	93828	3.65
RT GENERAL (2)	720.7**	2	11.8	99	1.6	0.8	7.4	9.9	30	-7	0	3010	1.30
	6538.0	26	228.0	13	3.5	3.9	13.2	15.7	14	-6	1	11228	7.52
)	192.8	14	26.5	20	13.7	13.0	16.1	17.3	25	9	10	2626	0.92
Y	220.4	25	8.7	-51	4.0	10.2	9.7	10.9	17	-6	10	617	2.56
K INTERNATIONAL	849.7	8	46.5	23	5.5	4.8	22.8	24.1	13	3	18	2915	3.54
ELL INTERNATIONAL (3)	3361.0	22	191.4	24	5.7	5.6	15.2	20.3	14	-6	-1	9538	3.13
NE	625.5	9	64.3	NM	10.3	NM	NM	40.7	13	-30	NA	1393	2.00
O	2163.0	-29	153.0	26	7.1	4.0	13.0	22.7	13	-6	-8	8705	3.65
N	2387.0	-1	109.0	9	4.6	4.2	7.7	15.4	12	NA	10	4884	4.96
	2596.3	20	114.7	79	4.4	3.0	15.9	21.0	12	-2	2	4660	5.82
	467.6	148	12.4	NM	2.7	0.1	4.6	16.5	28	-9	-28	929	0.29
AN	594.4	9	14.0	43	2.4	1.8	11.4	20.0	18	-10	-10	1930	1.04
NSUMER PRODUCTS													
TRY COMPOSITE	**63596.5**	**10**	**4423.0**	**16**	**7.0**	**6.6**	**15.0**	**24.2**	**17**	**9**	**8**	**297921**	**2.94**
PAREL													
COMPOSITE	**6096.6**	**12**	**251.9**	**31**	**4.1**	**3.5**	**8.0**	**12.9**	**18**	**15**	**8**	**18312**	**1.94**
GROUP (11)	332.2	3	3.8	NM	1.1	NM	NA	13.4	15	-6	NA	514	1.91
F THE LOOM	528.2	21	16.5	-34	3.1	5.7	3.5	4.5	39	30	3	1991	0.68
PPAREL GROUP	192.0**	19	16.7	13	8.7	9.1	22.2	22.9	12	59	14	699	2.17
OO (8)	291.5	16	-2.0	NM	NM	1.4	8.5	9.8	12	11	5	361	1.49
IBORNE	527.1	-3	28.1	2	5.3	5.1	8.5	8.5	17	10	-11	1415	1.08
)	1124.7	29	95.3	51	8.5	7.3	NA	19.1	15	26	13	5286	4.81
S-VAN HEUSEN (11)	353.4	14	10.0	-24	2.8	4.3	NA	11.4	14	54	19	406	1.11
INTERNATIONAL	935.5	9	65.9	0	7.0	7.7	23.9	25.7	11	1	13	2590	3.05
L	248.3	7	12.2	-8	4.9	5.8	10.9	12.4	15	9	1	1161	1.94
	1187.6	6	58.0	10	4.9	4.7	14.0	15.6	12	18	17	3321	4.28
INT STEVENS	376.2	6	-52.6	NM	NM	NM	NM	NM	NM	NA	NA	568	-5.97
PLIANCES & HOME FURNISHINGS													
COMPOSITE	**11009.0**	**22**	**377.7**	**11**	**3.4**	**3.7**	**11.5**	**14.6**	**16**	**4**	**-2**	**19635**	**1.69**
ONG WORLD INDUSTRIES	699.6	9	34.4	-28	4.9	7.5	17.2	25.1	9	-10	2	1626	4.84
Y (10)	1947.1	63	28.1	31	1.4	1.8	9.0	15.3	19	42	57	1080	1.33
CITY STORES (10)	1910.2	36	83.7	24	4.4	4.8	16.5	19.1	14	20	12	2362	1.72
UYS (3)	195.7	19	2.3	-17	1.2	1.7	11.5	11.5	9	32	7	135	1.11
MEYERS (10)	299.1**	24	14.9	5	5.0	5.9	9.6	13.6	16	23	18	1020	1.34
L INTERNATIONAL (6)	236.8	14	10.8	25	4.6	4.2	11.0	11.0	14	7	-2	569	1.88
Y CHAIR (8)	210.8	9	7.2	-10	3.4	4.1	10.6	12.2	14	8	3	494	1.97
	820.1	4	39.5	28	4.8	3.9	14.3	21.8	11	-9	-4	1838	1.50
MPORTS (10)	199.3	10	10.4	NM	5.2	NM	NA	11.5	16	10	-16	376	0.60

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS				RETURN					
					MARGINS					5-YEAR GROWTH		
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	MARKET VALUE SHARES OUTSTANDING 4-21 $ MIL.
SUN TV & APPLIANCES (10)	258.7	27	6.5	-9	2.5	3.5	9.9	11.9	9	77	42	149
SUNBEAM-OSTER	339.5	7	30.0	9	8.8	8.6	NA	18.5	17	10	NA	1813
TANDY	1226.6**	24	38.9	-7	3.2	4.2	12.0	13.2	17	-5	-6	2818
TORO (5)	214.0	13	6.8	52	3.2	2.4	16.8	18.8	11	7	-5	372
WHIRLPOOL	1985.0	6	75.0	12	3.8	3.6	9.1	9.6	26	4	7	4163
WILLIAMS-SONOMA (11)	204.2	26	13.4	17	6.6	7.0	16.2	16.6	26	28	-12	488
ZENITH ELECTRONICS	262.1	-12	-24.3	NM	NM	NM	NM	-11.7	NM	-15	NA	331
(C) BEVERAGES												
GROUP COMPOSITE	**8986.0**	**11**	**904.9**	**17**	**10.1**	**9.5**	**17.9**	**32.2**	**24**	**5**	**13**	**95687**
ANHEUSER-BUSCH	2756.5	5	216.1	6	7.8	7.8	13.5	23.6	15	7	3	14955
BROWN-FORMAN (8)	375.9	8	37.7	-3	10.0	11.1	17.3	28.9	15	0	9	2191
CANANDAIGUA WINE (4)	210.9	51	10.0	74	4.7	4.1	5.6	6.5	38	38	30	838
COCA-COLA	3854.0	15	638.0	22	16.6	15.5	41.2	51.0	28	9	18	74164
COCA-COLA ENTERPRISES	1462.0	11	3.0	NM	0.2	NM	3.4	5.9	38	-3	NA	2907
COORS (ADOLPH)	326.6	3	0.1	-99	0.0	2.2	6.4	7.6	12	-12	26	632
(D) PERSONAL CARE												
GROUP COMPOSITE	**14349.3**	**11**	**1111.7**	**22**	**7.7**	**7.1**	**19.9**	**28.0**	**20**	**9**	**5**	**86083**
AVON PRODUCTS	976.2	10	34.4	11	3.5	3.5	78.6	144.5	17	-3	10	4429
CLOROX (6)	499.1	4	54.0	9	10.8	10.3	16.2	20.8	16	3	7	3064
COLGATE-PALMOLIVE	1980.0	12	156.5	5	7.9	8.5	17.2	31.4	18	11	18	10090
ECOLAB	309.6	13	18.4	11	5.9	6.0	16.6	18.7	18	3	62	1540
GILLETTE	1536.0	13	196.1	20	12.8	12.1	26.2	37.0	25	88	15	18159
HELENE CURTIS INDUSTRIES (10)	365.0	8	7.8	21	2.1	1.9	6.8	9.0	17	9	3	336
NCH (8)	186.6	9	7.0	23	3.8	3.4	10.9	11.1	15	8	-2	520
PROCTER & GAMBLE (6)	8312.0	12	631.0	31	7.6	6.5	18.8	25.7	19	5	-10	47421
STANHOME	184.9	8	6.5	-21	3.5	4.7	16.1	15.7	13	9	-3	524
(E) TOBACCO												
GROUP COMPOSITE	**23155.6**	**4**	**1776.8**	**12**	**7.7**	**7.1**	**13.6**	**24.9**	**12**	**12**	**9**	**78203**
AMERICAN BRANDS	2792.5*	-7	116.6	-10	4.2	4.3	15.8	18.4	9	8	6	7721
PHILIP MORRIS	16517.0**	7	1363.0	16	8.3	7.6	18.1	38.5	12	4	9	57355
RJR NABISCO HOLDINGS	3540.0	-1	198.0	2	5.6	5.4	5.8	6.6	14	48	NA	7489
UST	306.1*	9	99.2	12	32.4	31.7	80.9	110.0	15	-4	19	5638

7 CONTAINERS & PACKAGING

COMPANY	SALES 1ST QUARTER 1995 $ MIL.	SALES CHANGE FROM 1994 %	PROFITS 1ST QUARTER 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	MARGINS 1ST QUARTER 1995 %	MARGINS 1ST QUARTER 1994 %	RETURN ON INVESTED CAPITAL %	RETURN ON COMMON EQUITY %	P-E 4-21	5-YEAR GROWTH COMMON EQUITY %	5-YEAR GROWTH EARNINGS PER SHARE %	MARKET VALUE SHARES OUTSTANDING 4-21 $ MIL.
INDUSTRY COMPOSITE	9009.1	25	458.7	NM	5.1	0.5	6.1	13.3	21	5	NA	21017
(A) GLASS, METAL & PLASTIC												
GROUP COMPOSITE	**2655.9**	**12**	**89.4**	**24**	**3.4**	**3.0**	**9.1**	**12.5**	**21**	**15**	**4**	**6279**
BALL	605.6	3	19.6	87	3.2	1.8	10.6	13.0	14	10	9	1068
CROWN CORK & SEAL	1126.7	19	36.5	9	3.2	3.6	8.5	9.8	28	10	8	3798
OWENS-ILLINOIS	923.6	10	33.3	19	3.6	3.3	NA	21.1	17	39	NA	1413
(B) PAPER												
GROUP COMPOSITE	**6353.2**	**31**	**369.3**	**NM**	**5.8**	**NM**	**5.5**	**13.7**	**20**	**3**	**NA**	**14738**
ACX TECHNOLOGIES	227.0	40	8.6	155	3.8	2.1	4.1	5.5	21	14	NA	532
BEMIS	368.6	14	16.1	18	4.4	4.2	12.8	18.0	19	9	6	1402
FEDERAL PAPER BOARD	435.8	36	46.9	NM	10.8	NM	8.3	12.6	11	2	-19	1229
GAYLORD CONTAINER (3)	256.3	40	27.5	NM	10.7	NM	NM	NM	NM	-20	NA	713
JEFFERSON SMURFIT	1001.1	38	39.3	NM	3.9	NM	11.5	NM	23	NA	NA	1602
LONGVIEW FIBRE (2)	227.5	37	16.5	831	7.3	1.1	7.0	11.6	17	1	-10	835
RIVERWOOD INTERNATIONAL	313.2	18	10.9	336	3.5	0.9	2.5	3.6	78	-7	NA	1425
ROCK-TENN (3)	224.7	30	10.8	9	4.8	5.7	12.3	14.2	13	NA	NA	514
SONOCO PRODUCTS	645.1	20	37.5	34	5.8	5.2	11.7	19.9	17	5	10	2173
STONE CONTAINER	1819.3	41	96.8	NM	5.3	NM	NM	6.3	47	-21	NA	1819
TEMPLE-INLAND	834.7	18	58.3	155	7.0	3.2	6.1	9.3	15	7	-16	2493

8 DISCOUNT & FASHION RETAILING

COMPANY	SALES 1ST QUARTER 1995 $ MIL.	SALES CHANGE FROM 1994 %	PROFITS 1ST QUARTER 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	MARGINS 1ST QUARTER 1995 %	MARGINS 1ST QUARTER 1994 %	RETURN ON INVESTED CAPITAL %	RETURN ON COMMON EQUITY %	P-E 4-21	5-YEAR GROWTH COMMON EQUITY %	5-YEAR GROWTH EARNINGS PER SHARE %	MARKET VALUE SHARES OUTSTANDING 4-21 $ MIL.
INDUSTRY COMPOSITE	122030.7	11	4921.4	60	4.0	2.8	11.4	14.3	18	9	16	204385
AMES DEPARTMENT STORES (11)	704.5**	6	30.7	-24	4.4	6.1	22.3	21.8	3	NA	NA	49
AUTOZONE (4)	364.1	20	23.8	14	6.5	6.9	20.6	21.3	28	54	40	3470
BAKER (J.) (11)	303.3	13	6.7	-16	2.2	3.0	6.7	10.9	8	36	7	183
BARNES & NOBLE (11)	592.8	23	39.2	44	6.6	5.6	7.8	8.0	35	NA	NA	852
BEST PRODUCTS (11)	602.4	4	29.8	-13	5.0	6.0	NM	-67.8	8	NA	NA	190
BON-TON STORES (11)	226.4**	85	13.9	47	6.1	7.8	8.1	13.8	9	25	-15	128
BRADLEES (11)	635.8	6	13.1	-53	2.1	4.6	NA	3.8	22	NA	NA	124
BROADWAY STORES (11)	748.0**	3	11.9	NM	1.6	NM	NM	-9.7	NM	NA	NA	299
CALDOR (11)	938.0	9	39.1	3	4.2	4.4	NA	14.9	7	51	111	327
CARSON PIRIE SCOTT (11)	392.9**	1	39.9	47	10.2	7.0	11.6	17.6	6	NA	NA	311
CHARMING SHOPPES (11)	345.4	-3	5.2	-78	1.5	6.7	7.7	8.0	13	18	17	578
COLE NATIONAL (11)	528.0	12	24.7	89	4.7	8.3	NA	NM	4	NA	NA	NA
CONSOLIDATED STORES (11)	453.4	30	38.0	34	8.4	8.1	NA	19.9	17	12	23	889
CORPORATE EXPRESS (10)	175.1	275	2.9	NM	1.6	NM	6.7	2.4	NM	NA	NA	749
DAYTON HUDSON (11)	6998.0**	11	279.0	0	4.0	4.4	9.3	13.6	11	9	4	4729
DILLARD DEPARTMENT STORES (11)	1788.3**	7	118.9	7	6.6	6.6	8.7	11.4	11	21	13	2825

RPORATE SCOREBOARD

MPANY	SALES		PROFITS				RETURN					MARKET VALUE SHARES OUTSTANDING 4-21 $ MIL.	12 MONTHS' EARNINGS PER SHARE
					MARGINS					5-YEAR GROWTH			
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %		
LAR GENERAL (11)	484.8	27	32.9	49	6.8	5.8	25.7	25.8	24	16	36	1665	1.06
ON BROTHERS STORES (11)	445.1	-1	17.2	76	3.9	2.2	5.8	5.2	16	15	-8	330	0.93
II-CENTERS OF AMERICA (11)	256.3	41	14.1	34	5.5	5.8	4.9	8.0	15	24	-4	170	1.26
ILY DOLLAR STORES (4)	420.9	6	17.0	-23	4.0	5.5	14.6	15.1	12	16	25	687	1.02
RATED DEPARTMENT STORES (11)	3139.3**	34	107.3	-27	3.4	6.2	NA	7.9	15	15	NA	2683	1.41
NE'S BASEMENT (11)	178.5**	0	-3.2	NM	NM	NM	2.0	1.0	79	94	NA	80	0.05
ERHUT	409.0	13	6.2	-38	1.5	2.8	7.5	8.3	13	12	6	513	0.85
(11)	1209.8	14	118.8	9	9.8	10.3	23.3	23.3	15	34	29	4670	2.20
DY'S FAMILY CLOTHING (11)	209.6	20	5.9	-26	2.8	4.6	NA	7.7	21	47	44	145	0.43
HINGER (11)	532.5	10	-39.2	NM	NM	0.3	NA	-1.9	NM	7	-13	439	-0.24
S STORES (11)	673.6	7	33.5	4	5.0	5.1	NA	15.1	6	NA	NA	192	2.87
E DEPOT (11)	3077.5	35	146.0	30	4.7	4.9	NA	18.4	32	55	36	18936	1.32
E SHOPPING NETWORK	243.6	-11	-8.8	NM	NM	2.4	1.8	1.3	NM	7	NA	629	0.02
SWAY (11)	195.7	-9	-89.3	NM	NM	NM	NA	NM	NA	NA	NA	NA	NA
RT (11)	10527.0**	-5	129.0	NM	1.2	NM	6.1	3.6	28	2	-10	6995	0.55
'S (11)	564.3	23	33.9	20	6.0	6.2	15.6	20.5	23	NA	NA	1606	1.87
DS' END (11)	379.1	9	24.0	-10	6.3	7.7	19.1	19.1	16	12	17	557	1.03
TED (11)	2538.6**	5	256.7	31	10.1	8.1	13.1	16.2	17	17	4	7644	1.25
E'S (11)	1487.5	30	46.3	80	3.1	2.2	NA	16.2	22	7	4	5000	1.44
FRUGAL'S BARGAINS (11)	247.8	2	25.2	24	10.2	8.4	18.9	17.9	10	5	-7	363	1.37
DEPARTMENT STORES (11)	3950.0**	7	401.0	10	10.2	9.8	12.7	18.5	12	13	11	8942	3.06
VILLE	2492.0	5	-26.4	NM	NM	NM	12.2	11.3	14	7	-7	3697	2.52
CANTILE STORES (11)	928.6**	5	59.5	6	6.4	6.3	NA	7.8	15	6	-10	1598	2.84
RY-GO-ROUND ENTERPRISES (11)	238.7	-21	-114.1	NM	NM	NM	NA	NM	NM	26	NA	47	-3.45
ER (FRED) (11)	832.0	3	8.6	-71	1.0	3.7	NA	1.3	NM	17	12	793	0.25
IAELS STORES (11)	377.5	60	22.2	58	5.9	5.9	9.6	10.0	17	44	115	622	1.76
IO WAREHOUSE	277.5	77	9.9	72	3.6	3.7	13.4	13.4	28	305	131	916	1.11
IAN MARCUS GROUP (5)	658.6**	1	26.5	23	4.0	3.3	5.6	-11.2	NM	NA	NA	565	-0.09
DSTROM (11)	1190.9**	8	69.9	15	5.9	5.5	13.5	15.1	16	13	10	3177	2.47
CE DEPOT	1351.2	30	32.5	32	2.4	2.4	NA	16.6	31	76	45	3383	0.74
CEMAX (11)	568.4	33	16.4	22	2.9	3.1	NA	4.7	39	NA	NA	544	0.60
IDA HOLDINGS (11)	211.5**	15	3.2	NM	1.5	NM	NA	44.5	13	-6	NA	33	0.51
ESS CASHWAYS (1)	556.2	3	-3.9	NM	NM	NM	7.3	11.2	7	NA	NA	314	1.08
IEY (J. C.) (11)	6993.0**	11	428.0	-3	6.1	6.9	12.3	19.2	10	5	13	9922	4.29
BOYS–MANNY, MOE & JACK (11)	335.7	13	18.3	18	5.5	5.2	NA	14.0	21	15	10	1697	1.32
MART (11)	187.8	54	5.5	NM	2.9	NM	NA	2.0	NM	NA	NA	988	0.14
E/COSTCO (4)	4307.3**	5	64.8	8	1.5	1.5	9.1	14.3	16	NA	NA	2946	0.93
FITT'S (11)	225.2**	188	11.9	714	5.3	1.9	NA	8.5	17	47	19	254	1.46
'S STORES (11)	228.0**	-40	3.7	78	1.6	0.6	NA	NM	NM	-36	NA	3	-2.73
STORES (11)	391.1	14	12.5	-2	3.2	3.7	13.0	14.5	7	18	4	260	1.49
S, ROEBUCK	13022.0	6	559.0	NM	4.3	NM	13.7	20.3	11	-8	4	18950	4.79
ICE MERCHANDISE	737.1	2	-23.0	NM	NM	NM	10.1	15.3	9	85	0	474	0.51
KO STORES (10)	485.8	5	18.8	84	3.9	2.2	NA	10.1	9	NA	-10	356	1.18
GEL	679.6	9	-9.4	NM	NM	1.1	2.8	1.6	99	7	-14	960	0.09
TS AUTHORITY (11)	269.8	34	10.8	29	4.0	4.2	12.2	6.7	21	NA	NA	361	0.81
LES (11)	664.7	78	21.4	315	3.2	1.4	8.2	11.1	40	44	44	1612	0.64
WBRIDGE & CLOTHIER (11)	345.8**	2	20.3	-13	5.9	6.9	7.4	8.2	10	3	-12	203	1.92
OTS (11)	264.4	21	8.9	61	3.4	2.5	13.3	14.1	20	NA	NA	1104	1.56
NY (11)	239.3**	15	19.3	7	8.1	8.7	11.2	13.2	17	8	-7	485	1.85
11)	1112.5	7	11.7	-62	1.0	3.0	11.1	15.2	12	3	9	860	1.03
'R' US (11)	4200.2	8	408.8	9	9.7	9.6	14.9	18.5	14	18	12	7251	1.85
SHOE (11)	684.1	2	-8.0	NM	NM	1.2	4.1	3.5	79	-3	NA	1280	0.35
E CITY DEPARTMENT STORES (5)	275.7**	2	15.9	-13	5.8	6.8	13.7	14.4	8	25	14	260	1.00
URE STORES (11)	699.2**	8	24.3	-20	3.5	4.7	NA	10.6	7	4	32	191	1.53
IG OFFICE PRODUCTS (6)	232.1	43	14.7	36	6.3	6.6	24.2	24.2	28	47	32	1135	0.99
AN (11)	972.0	9	21.3	NM	2.2	NM	10.4	13.3	8	44	NA	531	1.95
MART STORES (11)	24447.5	20	1029.6	19	4.2	4.3	14.5	22.2	21	29	22	55914	1.17
ES LUMBER	191.7	28	-4.6	NM	NM	NM	NM	106.7	2	NA	NA	78	5.27
LWORTH (11)	2560.0**	-9	90.0	NM	3.5	NM	5.8	3.5	44	-5	NA	2087	0.36
IKERS (11)	201.9**	9	9.8	23	4.9	4.3	NA	8.0	13	NA	NA	170	1.47
(5)	427.2	16	41.8	11	9.8	10.2	NA	NA	NA	NA	NA	415	NA

LECTRICAL & ELECTRONICS

JSTRY COMPOSITE	**34101.5**	**17**	**3038.5**	**39**	**8.9**	**7.5**	**16.2**	**18.2**	**17**	**7**	**12**	**173572**	**2.78**

LECTRICAL PRODUCTS

UP COMPOSITE	**4798.5**	**12**	**144.7**	**2**	**3.0**	**3.3**	**6.9**	**7.3**	**33**	**-8**	**-25**	**15729**	**0.71**
EK	219.6	10	10.7	21	4.9	4.4	18.7	55.8	14	-14	5	581	1.17
ER INDUSTRIES	1123.2**	8	55.3	6	4.9	5.0	8.6	9.6	17	-1	-3	4648	2.28
ELL	278.4	34	28.4	17	10.2	11.8	18.4	18.2	16	7	2	1767	3.32
NETEK (6)	318.7	11	6.9	126	2.2	1.1	NM	11.6	25	4	NA	350	0.58
ONAL SERVICE INDUSTRIES (4)	465.8	6	17.6	8	3.8	3.7	10.7	11.7	16	3	-2	1367	1.74
HEM (6)	368.8	2	10.9	922	3.0	0.3	-2.4	-3.5	NM	0	NA	1531	-0.57
TINGHOUSE ELECTRIC	2024.0	16	15.0	-58	0.7	2.1	4.5	0.3	NM	-23	-49	5486	0.02

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	SHARES OUTSTANDING 4-21 $ MIL.
(B) ELECTRONICS												
GROUP COMPOSITE	**15346.6**	**12**	**1003.8**	**29**	**6.5**	**5.7**	**15.1**	**16.5**	**16**	**7**	**8**	**66193**
E-SYSTEMS	514.6	4	29.4	5	5.7	5.7	11.7	11.6	23	7	2	2164
GENERAL INSTRUMENT	608.7	41	57.1	8	9.4	12.2	20.2	37.3	17	24	NA	4155
HARRIS (6)	850.4	1	38.0	15	4.5	3.9	9.3	11.3	14	4	3	1858
HUGHES ELECTRONICS	3578.8	0	268.9	-14	7.5	8.7	12.4	13.0	15	-1	8	15346
LITTON INDUSTRIES (5)	694.4	-14	28.6	22	4.1	2.9	10.2	9.2	27	-8	-17	1633
MOTOROLA	6011.0	28	372.0	25	6.2	6.4	16.1	18.0	19	18	23	30723
RAYTHEON	2387.0	3	173.9	NM	7.3	0.3	20.1	19.4	12	11	3	8663
TRACOR	211.2	21	6.3	62	3.0	2.2	10.8	21.6	11	29	NA	133
VARIAN ASSOCIATES (3)	490.4	24	29.7	62	6.1	4.6	18.8	22.0	16	1	30	1518
(C) INSTRUMENTS												
GROUP COMPOSITE	**2536.4**	**11**	**152.0**	**42**	**6.0**	**4.7**	**15.9**	**16.8**	**17**	**0**	**-2**	**10136**
BECKMAN INSTRUMENTS	205.0	3	10.3	5	5.0	4.9	12.9	15.1	18	1	4	830
HONEYWELL	1478.7	10	54.7	15	3.7	3.5	14.3	15.4	18	0	-5	5042
PERKIN-ELMER (6)	274.6	4	36.7	80	13.4	7.7	30.3	31.5	15	-12	1	1261
TEKTRONIX (7)	364.9	10	21.6	39	5.9	4.7	NA	14.5	17	1	20	1389
TERADYNE	213.2	40	28.7	113	13.5	8.9	16.9	17.5	19	12	38	1613
(D) SEMICONDUCTORS & OTHER COMPONENTS												
GROUP COMPOSITE	**11420.0**	**29**	**1738.0**	**51**	**15.2**	**13.0**	**21.6**	**23.5**	**15**	**18**	**34**	**81515**
ADVANCED MICRO DEVICES	620.1	21	96.8	14	15.6	16.5	17.2	17.8	10	23	46	3244
AMP	1202.8	33	104.8	32	8.7	8.8	15.7	16.9	21	7	5	8385
AMPHENOL	198.0	27	14.2	102	7.2	4.5	NA	18.6	26	60	NA	1288
ANALOG DEVICES (2)	208.0	15	23.6	55	11.4	8.4	14.5	15.2	23	8	25	1867
CIRRUS LOGIC (9)	273.2	56	18.9	28	6.9	8.4	NA	15.6	20	55	2	1151
INTEL	3557.0	34	889.0	44	25.0	23.2	24.0	25.6	16	29	40	38357
LSI LOGIC	280.2	45	45.3	134	16.2	10.0	16.2	24.7	25	8	NA	3393
MICRON TECHNOLOGY (4)	628.5	61	183.5	112	29.2	22.2	36.2	42.2	14	15	55	7810
MOLEX (6)	305.8	28	31.8	35	10.4	9.9	12.9	12.3	25	16	9	2866
NATIONAL SEMICONDUCTOR (7)	571.4	5	57.0	-11	10.0	11.7	20.1	19.7	9	3	NA	2359
READ-RITE (3)	241.8	73	25.0	NM	10.3	NM	15.9	17.0	13	167	-28	918
SOLECTRON (4)	471.3	44	18.0	46	3.8	3.8	14.4	18.1	18	97	40	1186
TEXAS INSTRUMENTS	2862.0	17	230.0	72	8.0	5.5	21.5	25.9	11	9	17	8689
10 FOOD												
INDUSTRY COMPOSITE	**76046.0**	**5**	**2547.6**	**23**	**3.4**	**2.8**	**12.7**	**21.8**	**20**	**9**	**9**	**164478**
(A) FOOD DISTRIBUTION												
GROUP COMPOSITE	**9408.1**	**10**	**125.9**	**26**	**1.3**	**1.2**	**6.8**	**12.2**	**21**	**10**	**7**	**8745**
INTERNATIONAL MULTIFOODS (10)	617.5	15	11.7	NM	1.9	NM	NA	20.1	7	-2	NA	371
JP FOODSERVICE (6)	258.6	8	1.5	NM	0.6	NM	NA	NA	NA	NA	NA	201
RICHFOOD HOLDINGS (8)	380.5	29	6.3	17	1.7	1.8	14.5	21.0	17	20	50	415
RYKOFF-SEXTON (8)	379.6	8	0.9	NM	0.2	NM	4.7	4.4	28	-1	-15	254
SMART & FINAL	252.1	27	3.5	35	1.4	1.3	NA	14.9	19	17	13	339
SUPER FOOD SERVICES (4)	257.5**	0	2.1	4	0.8	0.8	6.2	6.7	14	4	-13	125
SUPER RITE (10)	405.2	22	3.8	NM	0.9	NM	11.7	27.7	12	25	NA	148
SUPERVALU (10)	3890.7	6	43.3	-18	1.1	1.4	NM	3.6	42	10	8	1830
SYSCO (6)	2966.4	10	52.8	16	1.8	1.7	12.7	18.5	21	14	14	5064
(B) FOOD PROCESSING												
GROUP COMPOSITE	**33450.9**	**6**	**1776.5**	**21**	**5.3**	**4.7**	**14.4**	**21.8**	**21**	**7**	**9**	**119003**
CAMPBELL SOUP (5)	2040.0	8	231.0	14	11.3	10.7	25.6	29.8	18	2	150	12383
CONAGRA (7)	5757.6	3	118.5	14	2.1	1.9	12.3	18.9	17	20	10	8404
CONTINENTAL BAKING GROUP (3)	470.6	-4	-4.9	NM	NM	NM	NM	NM	NM	NA	NA	85
CPC INTERNATIONAL	1954.6	12	111.0	13	5.7	5.6	16.2	20.5	25	7	3	8787
DEAN FOODS (7)	665.9	7	17.2	-7	2.6	3.0	12.5	14.2	15	11	3	1148
DOLE FOOD	925.3	13	23.6	-21	2.6	3.6	4.3	5.7	28	5	-10	1725
FLOWERS INDUSTRIES (6)	256.6	16	9.1	23	3.5	3.3	8.4	11.8	18	7	1	671
GENERAL MILLS (7)	1287.0	-4	23.3	-79	1.8	8.4	11.1	22.1	32	11	9	9605
HEINZ (H. J.) (8)	1953.9	14	138.3	8	7.1	7.5	14.2	24.0	19	6	6	10440
HERSHEY FOODS	867.4	-2	60.6	14	7.0	6.0	12.0	13.3	24	5	5	4651
HORMEL FOODS (2)	730.7	2	35.5	73	4.9	2.9	19.1	19.4	16	6	11	2072
HUDSON FOODS (3)	271.8	6	8.2	87	3.0	1.7	11.2	12.5	13	13	0	501
IBP	3006.9	7	51.8	149	1.7	0.7	19.1	27.3	8	9	47	1648
INTERSTATE BAKERIES (7)	358.2	7	3.1	NM	0.9	NM	6.2	9.7	15	NA	NA	287
KELLOGG	1716.0	7	196.0	7	11.4	11.4	27.4	39.7	20	0	13	14133
McCORMICK (1)	425.4	16	19.3	6	4.5	5.0	10.2	12.7	29	8	7	1847
NABISCO HOLDINGS	1843.0	8	48.0	92	2.6	1.5	NA	NA	NA	NA	NA	7231
PILGRIM'S PRIDE (3)	216.8	-3	-16.3	NM	NM	3.5	3.5	-0.6	NM	12	6	217
PIONEER HI-BRED INTERNATIONAL (4)	277.0	11	9.0	-44	3.3	6.5	24.1	26.1	17	8	24	3170
QUAKER OATS (6)	1633.5	13	366.1	396	22.4	5.1	34.5	106.4	10	-17	7	4696
RALCORP HOLDINGS (3)	258.3	-2	21.9	-8	8.5	9.0	12.3	34.7	15	NA	NA	779
RALSTON PURINA GROUP (3)	1281.7	-15	53.9	-26	4.2	4.9	14.6	37.5	28	NA	-6	4726
SARA LEE (6)	4193.0	14	166.0	9	4.0	4.1	6.6	6.8	54	13	-5	13409

RPORATE SCOREBOARD

MPANY	SALES		PROFITS		RETURN								
					MARGINS					5-YEAR GROWTH		MARKET VALUE	
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	SHARES OUTSTANDING 4-21 $ MIL.	12 MONTHS' EARNINGS PER SHARE
THFIELD FOODS (8)	454.5	6	17.3	48	3.8	2.7	12.6	18.6	11	34	-3	369	2.01
VERSAL FOODS (3)	191.8	-19	13.6	-6	7.1	6.1	15.1	20.4	12	9	3	832	2.73
GLEY (WM.) JR.	413.2**	-1	55.3	-27	13.4	18.1	29.9	30.5	25	14	16	5186	1.81
FOOD RETAILING													
UP COMPOSITE	**33187.1**	**2**	**645.3**	**30**	**1.9**	**1.5**	**11.0**	**25.7**	**18**	**13**	**10**	**36729**	**1.05**
ERTSON'S (11)	3069.1	0	144.2	14	4.7	4.1	20.7	24.7	19	12	17	8096	1.65
RICAN STORES (11)	4646.6	-5	130.3	28	2.8	2.1	10.8	16.8	11	13	23	3643	2.42
EY'S GENERAL STORES (8)	200.6*	15	5.7	41	2.9	2.3	9.8	12.5	20	16	19	438	0.86
CHAMPS (6)	255.6	-4	-11.6	NM	NM	1.3	NM	-5.6	NM	12	-3	139	-1.07
LE FOOD CENTERS (11)	260.6	-3	-4.8	NM	NM	NM	NA	-39.7	NM	4	NA	29	-1.71
D LION	1866.3	3	37.7	21	2.0	1.7	12.0	15.1	17	13	-27	2781	0.33
ERAL NUTRITION (11)	227.2	28	15.2	48	6.7	5.8	12.3	24.9	22	NA	NA	936	1.14
IT FOOD (10)	1204.8	4	40.5	12	3.4	3.1	NA	13.0	17	11	-4	1615	1.59
AT ATLANTIC & PACIFIC TEA (10)	2370.1	0	5.8	NM	0.2	NM	NM	-21.6	NM	0	-50	951	-4.36
NAFORD BROTHERS	598.8**	15	14.6	32	2.4	2.1	11.2	14.5	16	16	9	1060	1.58
H N' KARRY FOOD STORES (5)	272.9	-2	2.4	NM	0.9	NM	NM	-37.1	NA	NA	NA	59	NA
GER	5465.0	3	64.5	16	1.2	1.0	25.6	NM	11	NA	24	2844	2.43
IONAL CONVENIENCE STORES (6)	213.6	4	-0.6	NM	NM	NM	5.6	5.5	14	NA	NA	60	0.69
N TRAFFIC (11)	859.4**	2	8.1	7	0.9	0.9	7.1	109.1	15	0	NA	331	1.97
DICK (3)	509.9	9	10.3	38	2.0	1.6	9.9	12.1	13	13	5	472	1.57
EWAY	3632.3	4	62.0	48	1.7	1.2	14.2	42.0	16	46	72	3747	2.20
TH'S FOOD & DRUG CENTERS	746.7	-1	9.5	1	1.3	1.2	6.3	10.2	12	17	7	532	1.79
THLAND	1564.1**	2	-1.0	NM	NM	NM	NM	NM	18	NA	NA	1755	0.24
P & SHOP (11)	907.9	4	22.5	20	2.5	2.2	9.8	33.6	15	16	142	1226	1.59
S	1142.5	0	14.0	56	1.2	0.8	4.5	5.7	27	23	-20	841	0.72
S MARKETS	397.5	7	19.1	10	4.8	4.7	10.0	10.2	14	6	-3	1093	1.79
N-DIXIE STORES (6)	2775.8	5	56.9	9	2.1	2.0	19.7	20.4	18	6	13	4083	3.08
FUEL													
USTRY COMPOSITE	**105329.5**	**14**	**4792.8**	**26**	**4.6**	**4.1**	**8.2**	**11.4**	**19**	**1**	**-2**	**309828**	**2.71**
COAL, OIL & GAS													
UP COMPOSITE	**100887.0**	**15**	**4548.9**	**25**	**4.5**	**4.1**	**8.2**	**11.5**	**19**	**1**	**-1**	**283730**	**2.82**
RADA HESS	1978.3**	6	25.2	-70	1.3	4.5	1.3	0.5	NM	3	-44	4708	0.16
CO	6750.0**	13	523.0	31	7.7	6.7	9.9	13.3	17	0	1	31712	3.85
LAND (3)	2520.0	25	-29.0	NM	NM	1.6	6.1	7.0	25	0	6	2310	1.53
NTIC RICHFIELD	4244.0**	12	322.0	116	7.6	3.9	10.4	17.4	17	-2	-21	18587	6.68
LINGTON RESOURCES	214.6	-22	-4.8	NM	NM	17.3	NM	4.0	50	-5	5	5029	0.79
VRON	9044.0**	9	459.0	18	5.1	4.7	9.2	12.1	17	0	29	30306	2.70
STAL	2618.3	-3	57.6	-29	2.2	3.0	6.6	7.8	16	6	-4	3142	1.83
MOND SHAMROCK	676.7	16	5.4	-56	0.8	2.1	8.1	11.0	12	16	-8	780	2.22
ON	26709.0**	15	1660.0	43	6.2	5.0	10.6	14.2	15	3	8	86022	4.48
	863.2	11	33.5	34	3.9	3.2	7.6	9.7	12	1	-6	1333	7.09
SIANA LAND & EXPLORATION	191.3	-5	3.5	-44	1.8	3.1	NM	-65.2	NM	0	NA	1268	-6.85
CO	777.2**	12	29.0	-30	3.7	6.0	6.3	10.7	25	12	-2	1671	2.23
CHELL ENERGY & DEVELOPMENT (11)	224.0**	-3	9.0	386	4.0	0.8	4.5	9.6	20	5	60	930	0.87
IL	17627.0**	17	636.0	19	3.6	3.5	8.5	10.7	20	0	-1	36431	4.54
PHY OIL	421.2**	5	16.0	-32	3.8	5.9	6.8	7.8	20	11	3	1961	2.20
DENTAL PETROLEUM	2714.0	29	178.0	NM	6.6	NM	1.4	3.2	75	-11	NA	7604	0.32
LIPS PETROLEUM	3124.0**	7	111.0	-13	3.6	4.3	8.3	15.8	20	5	6	9321	1.79
	2588.0**	25	-7.0	NM	NM	1.6	4.8	3.1	58	-12	3	3222	0.52
ACO	9059.0**	22	301.0	49	3.3	2.7	9.1	10.8	17	2	-15	17454	3.85
CO	1723.7	15	-6.1	NM	NM	2.6	6.2	6.1	32	27	-6	1223	1.02
RAMAR	628.9	7	1.1	-96	0.2	5.3	5.3	5.8	31	NA	7	963	0.81
N TEXAS PETROLEUM HOLDINGS	240.0	24	47.0	77	19.6	13.7	8.4	24.9	23	-2	-18	1960	0.99
CAL	1750.0**	3	74.0	17	4.2	3.7	NA	3.7	65	4	28	6967	0.44
-MARATHON GROUP	3337.0*	21	77.0	-30	2.3	4.0	6.0	8.9	19	NA	-14	5277	0.98
RO ENERGY	690.5	145	3.8	-40	0.6	2.2	3.2	1.2	70	13	-20	886	0.29
TAR RESOURCES	173.3**	-17	23.7	-50	13.7	22.4	15.5	433.4	21	NA	NA	2662	1.30
PETROLEUM SERVICES													
UP COMPOSITE	**4442.5**	**4**	**243.9**	**31**	**5.5**	**4.4**	**9.8**	**10.4**	**26**	**6**	**-5**	**26098**	**1.73**
ER HUGHES (3)	652.6	0	28.0	20	4.3	3.6	7.6	8.2	24	9	-7	3173	0.94
IBURTON	1322.1**	-4	39.1	120	3.0	1.3	8.9	10.3	22	-3	2	4421	1.74
LUMBERGER	1762.3	7	146.8	21	8.3	7.4	12.3	12.0	27	10	3	15382	2.32
TH INTERNATIONAL	199.6**	98	10.8	42	5.4	7.5	12.6	15.4	17	26	NA	674	1.01
TERN ATLAS	505.9	1	19.2	17	3.8	3.3	6.5	6.5	29	NA	NA	2448	1.61
HEALTH CARE													
USTRY COMPOSITE	**57631.6**	**18**	**6431.9**	**27**	**11.2**	**10.4**	**19.2**	**25.6**	**18**	**11**	**10**	**362603**	**2.62**
DRUG DISTRIBUTION													
UP COMPOSITE	**16669.9**	**17**	**354.5**	**103**	**2.1**	**1.2**	**11.7**	**9.9**	**26**	**8**	**4**	**16314**	**1.19**
R DRUGS (5)	185.1	16	7.5	16	4.0	4.1	9.9	11.2	24	21	-1	387	0.96
GEN BRUNSWIG (3)	2084.2**	13	17.9	23	0.9	0.8	8.3	13.3	16	1	-5	1006	1.59
B (11)	192.8	7	7.0	26	3.6	3.1	9.5	14.1	14	10	32	212	0.97
LEY WESTERN INDUSTRIES	1113.7	21	4.2	16	0.4	0.4	8.7	8.5	11	35	13	168	1.37

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	SHARES OUTSTANDING 4-21 $ MIL.
CARDINAL HEALTH (6)	1988.0	32	25.9	NM	1.3	NM	12.3	15.1	25	NA	NA	1984
DRUG EMPORIUM (10)	180.3	-11	2.0	135	1.1	0.4	NM	-12.2	NM	1	-33	59
ECKERD (11)	1302.6	10	44.8	25	3.4	3.0	19.3	NM	13	NA	NA	966
FAY'S (11)	286.1	12	5.9	0	2.1	2.3	9.3	12.6	15	11	-2	184
LONGS DRUG STORES (11)	695.2	2	17.3	2	2.5	2.5	8.5	9.3	14	9	-5	696
McKESSON (9)	3348.1**	7	39.6	27	1.2	1.0	NA	-19.9	NM	-5	6	1719
REVCO D. S. (7)	1133.0	82	17.7	42	1.6	2.0	5.3	6.7	25	NA	NA	1405
RITE AID (10)	1353.8	26	53.3	NM	3.9	NM	NA	14.5	13	10	-14	1897
WALGREEN (4)	2807.0	12	111.6	14	4.0	3.9	17.6	19.1	19	14	13	5631
(B) DRUGS & RESEARCH												
GROUP COMPOSITE	**21042.5**	**20**	**4204.5**	**30**	**20.0**	**18.4**	**21.7**	**30.4**	**17**	**11**	**9**	**219451**
ALLERGAN	228.3	9	21.7	-2	9.5	10.6	17.0	17.8	16	5	14	1775
AMERICAN HOME PRODUCTS	3491.0	63	1022.6	146	29.3	19.4	15.2	50.2	11	15	6	23408
AMGEN	439.4	21	108.6	16	24.7	25.7	23.4	26.3	29	47	81	9098
BRISTOL-MYERS SQUIBB	3301.0	16	657.0	13	19.9	20.5	30.2	33.6	17	3	15	32910
GENENTECH	225.4**	19	43.4	12	19.3	20.6	9.0	9.2	48	19	11	6009
LILLY (ELI)	1717.3	31	374.8	25	21.8	23.0	17.6	23.5	17	8	-5	21859
MARION MERRELL DOW	712.0	1	75.0	-13	10.5	12.1	18.4	20.0	16	26	-1	6710
MERCK	3817.3	9	757.4	12	19.8	19.2	22.1	27.6	18	28	12	53501
PFIZER	2402.9	21	420.4	13	17.5	18.7	27.9	31.2	20	-3	11	26984
RHONE-POULENC RORER	992.2	14	91.9	18	9.3	8.9	16.7	21.8	16	27	81	5649
SCHERING-PLOUGH	1244.3	7	278.6	10	22.4	21.8	49.4	60.2	16	-5	18	14463
UPJOHN	866.7	7	151.6	22	17.5	15.3	16.3	21.3	13	6	7	6320
WARNER-LAMBERT	1604.6	9	201.4	6	12.6	12.9	36.1	38.8	15	8	8	10768
(C) HEALTH-CARE SERVICES												
GROUP COMPOSITE	**6568.5**	**18**	**336.3**	**3**	**5.1**	**5.9**	**10.0**	**15.1**	**17**	**28**	**15**	**20607**
BEVERLY ENTERPRISES	795.6	11	16.5	9	2.1	2.1	6.6	10.4	18	13	36	1274
CAREMARK INTERNATIONAL	566.1	42	13.7	18	2.4	2.9	14.5	18.5	15	20	NA	1334
CONTINENTAL MEDICAL SYSTEMS (6)	249.3	-1	1.8	-57	0.7	1.6	NM	-20.0	NM	41	NA	409
HEALTHSOUTH	307.0	18	19.1	40	6.2	5.3	7.0	13.8	27	40	5	1383
HILLHAVEN (7)	396.2**	6	11.4	-5	2.9	3.2	9.0	11.5	16	16	NA	701
HUMANA	1025.0**	20	53.0	66	5.2	3.8	18.9	18.6	18	NA	NA	3489
INTEGRATED HEALTH SERVICES	265.4**	101	13.6	113	5.1	4.8	5.2	9.6	15	145	43	662
MANOR CARE (7)	322.1	13	18.7	20	5.8	5.5	NA	15.6	21	21	30	1941
NATIONAL MEDICAL ENTERPRISES (7)	660.5	-8	48.9	-46	7.4	12.7	NA	11.9	16	5	-6	2641
NOVACARE (6)	240.9	18	9.0	-44	3.7	7.8	9.0	10.9	12	57	34	574
ORNDA HEALTHCORP (4)	442.7**	56	19.9	545	4.5	1.1	NM	-6.1	NM	50	NA	822
U. S. HEALTHCARE	833.8**	16	94.6	6	11.3	12.5	43.8	40.3	12	43	64	4761
UNITED WISCONSIN SERVICES	243.1**	44	4.2	-47	1.7	4.6	NA	16.9	9	NA	NA	251
UNIVERSAL HEALTH SERVICES	220.7**	14	11.8	15	5.4	5.3	9.9	11.6	12	10	26	364
(D) MEDICAL PRODUCTS												
GROUP COMPOSITE	**13350.8**	**18**	**1536.6**	**16**	**11.5**	**11.7**	**18.8**	**24.2**	**20**	**8**	**11**	**106231**
ABBOTT LABORATORIES	2524.4	14	417.3	14	16.5	16.5	36.5	38.7	19	8	14	29922
BARD (C. R.)	264.1	7	24.2	6	9.2	9.2	16.8	17.3	20	5	8	1509
BAUSCH & LOMB	465.6	6	20.3	-43	4.4	8.1	2.2	-0.2	NM	5	-24	2308
BAXTER INTERNATIONAL	2318.0	6	145.0	11	6.3	6.0	12.7	16.4	16	0	7	9563
BECTON, DICKINSON (3)	692.8	9	64.9	14	9.4	9.0	12.9	18.9	17	7	8	3745
GUIDANT	224.8	10	21.1	-8	9.4	11.2	13.8	34.2	NA	NA	NA	1365
JOHNSON & JOHNSON	4496.0	22	654.0	20	14.5	14.7	23.5	29.7	19	9	15	40670
MALLINCKRODT GROUP (6)	569.1	17	48.1	12	8.5	8.8	9.2	11.0	23	NA	5	2676
MEDTRONIC (8)	413.7	24	71.4	25	17.3	17.0	22.8	22.7	31	17	18	8480
OWENS & MINOR	747.1	91	4.6	-3	0.6	1.2	2.9	2.3	NM	14	16	423
ST. JUDE MEDICAL	180.5	171	30.6	15	16.9	39.8	10.2	14.1	25	24	12	2045
STRYKER	214.0	44	20.8	20	9.7	11.7	15.2	21.2	29	26	32	2237
U. S. SURGICAL	240.6	6	14.4	NM	6.0	NM	5.9	3.2	58	31	-31	1286
13 HOUSING & REAL ESTATE												
INDUSTRY COMPOSITE	8859.7	17	383.0	343	4.3	1.1	11.7	19.8	15	8	9	27063
(A) BUILDING MATERIALS												
GROUP COMPOSITE	**7477.5**	**19**	**330.6**	**NM**	**4.4**	**0.4**	**12.6**	**23.4**	**16**	**5**	**-1**	**23879**
AMERICAN STANDARD	1223.0	24	26.0	NM	2.1	NM	-2.8	NM	NM	NA	NA	1592
LAFARGE	196.8	-5	-42.1	NM	NM	NM	10.0	11.9	13	0	-24	1313
NATIONAL GYPSUM	172.3	23	-8.6	NM	NM	8.6	16.4	17.2	17	NA	NA	998
NORTEK	184.8	9	2.5	257	1.4	0.4	10.0	16.1	7	-13	NA	127
OWENS-CORNING FIBERGLAS	844.0	25	33.0	NM	3.9	NM	42.6	NM	9	NA	-11	1575
PPG INDUSTRIES	1740.8	18	219.2	80	12.6	8.3	18.4	23.9	13	1	-1	7969
RPM (7)	229.8	23	7.3	11	3.2	3.5	12.3	17.3	20	16	10	1136
SHERWIN-WILLIAMS	716.8	12	18.7	21	2.6	2.4	17.8	18.0	16	10	11	2980
TECUMSEH PRODUCTS	473.6	23	34.9	20	7.4	7.5	15.7	15.3	9	2	23	1116
TEXAS INDUSTRIES (7)	199.0**	17	6.9	140	3.5	1.7	11.4	12.2	10	6	-17	459
USG	598.0	18	-2.0	NM	NM	NM	-4.8	NM	NM	NA	NA	1043
VULCAN MATERIALS	294.4	36	16.0	NM	5.4	NM	13.9	16.3	17	2	-4	2024
YORK INTERNATIONAL	604.3	14	18.8	23	3.1	2.9	11.6	17.3	17	25	80	1549

RPORATE SCOREBOARD

MPANY	SALES 1ST QUARTER 1995 $ MIL.	SALES CHANGE FROM 1994 %	PROFITS 1ST QUARTER 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	MARGINS 1ST QUARTER 1995 %	MARGINS 1ST QUARTER 1994 %	RETURN ON INVESTED CAPITAL %	RETURN ON COMMON EQUITY %	P-E 4-21	5-YEAR GROWTH COMMON EQUITY %	5-YEAR GROWTH EARNINGS PER SHARE %	MARKET VALUE SHARES OUTSTANDING 4-21 $ MIL.	12 MONTHS' EARNINGS PER SHARE
CONSTRUCTION & REAL ESTATE													
OUP COMPOSITE	1382.2	6	52.5	-18	3.8	4.9	8.4	10.9	11	21	6	3184	1.44
YTON HOMES (6)	179.7	20	22.3	27	12.4	11.7	15.3	16.4	15	42	23	1183	1.07
UFMAN & BROAD HOME (1)	229.8	-11	0.4	-95	0.2	3.4	5.5	7.0	13	19	-12	405	0.95
INAR (1)	181.2**	-6	15.0	2	8.3	7.7	7.3	12.8	8	17	24	577	1.90
LTE	332.9**	-2	-0.4	NM	NM	3.3	NA	7.1	11	19	10	563	1.83
S. HOME	263.2**	17	8.1	15	3.1	3.1	9.1	12.2	6	14	NA	181	2.96
BB (DEL) (6)	195.4**	43	7.0	53	3.6	3.4	9.3	11.9	11	28	2	275	1.68
LEISURE TIME INDUSTRIES													
USTRY COMPOSITE	19471.8	14	1421.6	22	7.3	6.9	13.2	18.0	21	8	8	122058	1.68
EATING PLACES													
OUP COMPOSITE	3367.6	14	345.2	14	10.3	10.3	14.0	19.3	19	14	12	28997	1.59
B EVANS FARMS (8)	185.6	11	13.9	14	7.5	7.3	13.6	13.9	16	12	12	865	1.26
NKER INTERNATIONAL (6)	268.5	19	18.2	13	6.8	7.1	15.1	14.9	17	38	26	1167	0.95
CKER BARREL OLD COUNTRY STORE (5)	188.6	25	12.3	24	6.5	6.6	12.8	13.5	21	42	32	1274	1.02
DONALD'S	2161.3	20	280.7	15	13.0	13.6	13.4	18.8	20	13	11	24453	1.74
RRISON RESTAURANTS (7)	272.0**	-12	13.1	7	4.8	4.0	25.1	26.3	13	6	12	762	1.71
NEY'S (2)	291.6	0	6.9	-30	2.4	3.3	26.6	NM	9	NA	24	476	1.35
ENTERTAINMENT													
OUP COMPOSITE	2922.8	28	315.5	27	10.8	10.9	14.1	23.0	23	13	6	28328	2.42
NEY (WALT) (3)	2922.8	28	315.5	27	10.8	10.9	14.1	23.0	23	13	6	28328	2.42
HOTEL & MOTEL													
OUP COMPOSITE	3611.4	8	199.4	57	5.5	3.8	9.0	15.6	26	17	11	17489	1.36
LY ENTERTAINMENT	228.3**	8	4.2	NM	1.8	NM	4.8	3.1	46	-9	NA	435	0.20
CUS CIRCUS ENTERPRISES (11)	278.8	1	30.9	21	11.1	9.3	NA	20.9	20	36	14	2775	1.59
TON HOTELS	381.9**	12	32.0	41	8.4	6.7	8.0	11.6	28	5	1	3620	2.71
RRIOTT INTERNATIONAL	2013.0	5	52.0	21	2.6	2.2	17.9	27.3	22	NA	NA	4242	1.59
AGE RESORTS	352.9	17	51.7	121	14.6	7.8	NA	15.3	17	58	-7	2501	1.62
MUS	356.5	23	28.7	30	8.1	7.6	7.8	9.1	70	28	22	3917	0.55
OTHER LEISURE													
OUP COMPOSITE	9570.1	13	561.6	15	5.9	5.8	13.7	16.1	20	2	8	47244	1.57
ERICAN GREETINGS (10)	500.4	6	43.3	10	8.7	8.3	12.4	12.8	14	15	18	2090	2.00
NSWICK	774.2	22	40.2	52	5.2	4.2	11.8	15.7	14	2	10	1993	1.50
NIVAL (1)	419.8	9	67.6	4	16.1	16.9	14.8	19.4	18	17	13	6853	1.36
L GROUP (5)	327.4	12	40.6	6	12.4	13.1	16.1	18.5	8	57	33	355	0.94
EMAN	224.0**	27	13.2	16	5.9	6.5	NA	13.5	28	NA	NA	977	1.33
TMAN KODAK	3137.0	14	262.0	81	8.4	5.3	15.3	16.7	29	-12	9	19536	1.99
ETWOOD ENTERPRISES (8)	661.4	21	18.3	51	2.8	2.2	11.1	15.4	11	6	0	1036	1.98
RLEY-DAVIDSON	389.7	13	23.6	13	6.1	6.1	24.7	24.7	17	22	10	1813	1.41
RMAN INTERNATIONAL INDUSTRIES (6)	310.5	39	11.4	39	3.7	3.7	12.9	15.8	16	17	-5	595	2.48
BRO	526.5	8	21.7	-19	4.1	5.5	12.5	12.5	16	12	20	2790	1.98
FFY	200.7	6	4.4	-9	2.2	2.6	11.0	12.7	12	7	-2	188	1.18
TTEL	543.6	12	27.0	12	5.0	4.9	20.1	23.4	20	37	11	5136	1.14
SICLAND STORES	346.4	29	-6.3	NM	NM	NM	3.6	3.9	23	53	22	313	0.40
BOARD MARINE (3)	318.8	21	18.0	-6	5.6	7.2	17.6	26.5	8	-23	NA	419	2.67
AROID	409.6	-11	-75.8	NM	NM	0.3	6.4	5.3	43	44	-5	1587	0.81
AL CARIBBEAN CRUISES	273.6	-5	51.4	45	18.8	12.3	12.7	18.7	10	NA	NA	1521	2.50
NS WORLD ENTERTAINMENT (11)	206.6	8	1.1	-92	0.6	7.2	NA	-5.3	NM	20	-6	44	-0.64
MANUFACTURING													
USTRY COMPOSITE	37935.8	18	2211.8	33	5.8	5.2	14.6	19.2	16	3	5	134719	2.50
GENERAL MANUFACTURING													
OUP COMPOSITE	14336.8	20	928.7	39	6.5	5.6	15.1	18.5	18	6	3	65215	2.32
RY DENNISON	773.2	16	34.5	37	4.5	3.8	13.1	16.3	18	3	27	2102	2.17
RLISLE	188.0	22	8.6	27	4.6	4.4	12.8	15.1	16	3	11	580	2.41
RNING	1123.0**	17	79.4	37	7.1	6.1	10.0	13.3	26	3	-2	8187	1.39
NE	432.6	30	13.3	79	3.1	2.2	11.1	18.8	16	1	-2	958	2.05
ERAL SIGNAL	187.1	36	10.8	32	5.8	5.9	20.9	22.4	21	11	14	1010	1.08
RSCO†	356.9	12	25.5	37	7.1	5.8	12.3	15.7	12	7	37	1121	3.72
LENBRAND INDUSTRIES (1)	396.3	5	27.5	-27	6.9	10.0	10.4	11.8	26	12	9	2046	1.12
NOIS TOOL WORKS	929.1	20	75.0	47	8.1	6.6	16.9	18.7	19	10	8	5612	2.66
NSON CONTROLS (3)	2050.5	22	32.3	27	1.6	1.5	12.2	16.0	13	5	10	2175	4.05
RK IV INDUSTRIES (10)	485.0	52	17.6	51	3.6	3.6	NA	14.4	14	27	8	998	1.40
NESOTA MINING & MFG.	4087.0	13	376.0	23	9.2	8.4	18.1	20.7	18	4	2	25345	3.31
VELL	556.6	26	36.1	15	6.5	7.1	14.3	17.8	18	22	11	3670	1.27
KER HANNIFIN (6)	879.7	30	65.9	NM	7.5	NM	15.8	18.3	13	2	-13	2555	3.91
ARIS INDUSTRIES	254.8	75	12.9	111	5.1	4.2	78.6	78.6	6	NA	25	844	7.28
BERMAID†	563.9	15	54.1	7	9.6	10.3	18.2	17.5	21	16	12	4844	1.44
LED AIR	173.4	48	11.6	53	6.7	6.4	28.9	374.5	20	NA	31	810	2.04
EFLEX	226.9	19	12.3	24	5.4	5.2	10.5	14.1	17	14	7	739	2.48
NOVA	498.6	13	22.6	70	4.5	3.0	15.0	21.5	13	-16	-2	958	2.57
TTS INDUSTRIES (6)	174.4	31	12.7	15	7.3	8.3	9.7	11.6	15	22	6	662	1.49

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS				RETURN						
					MARGINS					5-YEAR GROWTH			
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	MARKET VALUE SHARES OUTSTANDING 4-21 $ MIL.	12 MONTH EARNIN PER SHAR
(B) MACHINE & HAND TOOLS													
GROUP COMPOSITE	**3641.3**	**15**	**128.8**	**46**	**3.5**	**2.8**	**10.8**	**15.5**	**16**	**3**	**–1**	**9058**	**1.9**
BLACK & DECKER	1199.8	11	25.7	76	2.1	1.3	8.6	12.5	20	5	18	2572	1.5
CINCINNATI MILACRON	331.4	35	13.0	161	3.9	2.0	19.8	30.0	19	–11	NA	870	1.3
DANAHER	376.5	30	21.8	50	5.8	5.0	16.0	18.7	18	16	11	1610	1.5
NACCO INDUSTRIES	502.4	31	12.8	362	2.5	0.7	12.0	19.8	9	–5	–10	496	6.1
SNAP-ON	309.1**	3	26.5	16	8.6	7.6	11.6	13.5	15	5	–3	1522	2.3
SPX	278.8	1	0.3	–92	0.1	1.1	5.3	6.9	16	–6	–6	203	0.8
STANLEY WORKS	643.3	10	28.7	12	4.5	4.4	13.0	17.1	14	1	–2	1784	2.8
(C) SPECIAL MACHINERY													
GROUP COMPOSITE	**16982.9**	**18**	**1062.9**	**24**	**6.3**	**6.0**	**15.6**	**21.2**	**14**	**–2**	**5**	**54401**	**3.3**
APPLIED MATERIALS (2)	506.1	49	65.8	76	13.0	11.0	21.4	23.5	20	30	29	4663	2.8
BRIGGS & STRATTON (6)	450.2	17	47.3	33	10.5	9.2	25.0	28.6	8	9	32	984	4.3
CASE	1141.0	14	70.0	112	6.1	3.3	11.7	16.7	9	NA	NA	1852	2.7
CATERPILLAR	3913.0	19	300.0	56	7.7	5.8	19.0	36.5	11	–14	22	11175	5.2
CLARK EQUIPMENT	313.1	53	20.1	63	6.4	6.0	10.0	12.2	21	–7	–2	1462	4.0
DEERE (2)	2106.3**	22	138.4	59	6.6	5.0	18.2	25.0	11	–4	–7	7255	7.5
DOVER	854.1	25	59.8	40	7.0	6.3	19.5	22.1	17	5	7	3631	3.8
DRESSER INDUSTRIES (2)	1300.3	–7	38.6	–80	3.0	14.0	11.8	13.3	19	–7	2	3895	1.1
FMC	1015.5	12	52.4	14	5.2	5.1	20.7	43.1	12	18	–10	2191	4.8
GENERAL SIGNAL	411.0	20	27.3	23	6.6	6.5	14.3	19.9	16	2	–3	1754	2.3
HARNISCHFEGER INDUSTRIES (2)	477.0**	26	2.5	–31	0.5	1.0	4.5	4.1	41	–2	–16	1383	0.7
INGERSOLL-RAND	1185.6	17	46.3	40	3.9	3.3	13.3	14.7	17	0	–1	3771	2.1
LAM RESEARCH (6)	219.0	72	24.8	159	11.3	7.5	18.1	19.7	18	29	23	1266	2.6
PENTAIR	459.3	18	15.4	38	3.3	2.9	8.8	13.4	16	10	7	823	2.8
STEWART & STEVENSON SERVICES (11)	287.8	18	18.4	10	6.4	6.9	NA	16.8	19	28	16	1287	2.0
TIMKEN	568.9	22	34.3	343	6.0	1.7	12.5	13.0	13	–9	–9	1227	3.0
TYCO INTERNATIONAL (6)	1135.1	13	65.0	31	5.7	4.9	10.0	12.1	20	11	–6	3944	2.6
VARITY (11)	639.6	32	36.6	66	5.7	4.5	14.3	14.8	16	7	–16	1838	2.6
(D) TEXTILES													
GROUP COMPOSITE	**2974.8**	**11**	**91.4**	**89**	**3.1**	**1.8**	**11.8**	**14.7**	**17**	**12**	**19**	**6045**	**1.0**
COLLINS & AIKMAN (11)	382.1	12	24.7	NM	6.5	NM	120.3	NM	NM	NA	NA	538	–0.3
FIELDCREST CANNON	257.0	11	3.6	–35	1.4	2.4	7.5	10.5	8	–4	10	196	2.7
GUILFORD MILLS (3)	201.9	30	9.4	139	4.6	2.5	9.6	13.5	10	5	5	332	2.3
INTERFACE	191.3	19	4.0	43	2.1	1.8	5.8	7.4	17	4	–12	273	0.8
MOHAWK INDUSTRIES	379.8	16	4.3	NM	1.1	NM	7.9	14.0	13	NA	NA	463	1.1
SHAW INDUSTRIES	676.6	9	4.5	–82	0.7	4.1	9.3	15.1	17	36	17	1829	0.7
SPRINGS INDUSTRIES	483.1	0	9.9	70	2.0	1.2	9.5	11.2	10	0	1	658	3.7
UNIFI (6)	403.0	16	31.1	36	7.7	6.6	12.0	16.0	20	44	16	1756	1.3
16 METALS & MINING													
INDUSTRY COMPOSITE	**22087.2**	**25**	**1489.9**	**516**	**6.7**	**1.4**	**11.0**	**17.3**	**13**	**–2**	**22**	**52432**	**1.9**
(A) ALUMINUM													
GROUP COMPOSITE	**6453.7**	**30**	**388.7**	**NM**	**6.0**	**NM**	**8.7**	**12.7**	**16**	**–9**	**NA**	**13212**	**2.4**
ALUMAX	698.6	17	110.4	NM	15.8	NM	10.4	13.5	8	NA	NA	1226	3.4
ALUMINUM CO. OF AMERICA	3009.8	35	193.8	NM	6.4	NM	13.8	17.1	12	–8	–42	7974	3.7
KAISER ALUMINUM	513.0	24	3.5	NM	0.7	NM	NM	NM	NM	–60	NA	633	–1.5
MAXXAM	581.3	19	–1.0	NM	NM	NM	NM	NM	NM	NA	NA	266	–8.8
REYNOLDS METALS	1651.0	32	82.0	NM	5.0	NM	7.7	10.3	17	–11	–30	3113	3.0
(B) STEEL													
GROUP COMPOSITE	**11295.7**	**16**	**603.5**	**211**	**5.3**	**2.0**	**14.9**	**23.3**	**11**	**–3**	**NA**	**21494**	**2.0**
AK STEEL HOLDING	610.4	37	68.3	563	11.2	2.3	NM	71.8	2	NA	NA	700	12.2
ALLEGHENY LUDLUM	395.3	26	28.9	59	7.3	5.8	6.8	7.7	54	2	–25	1572	0.4
ARMCO	368.4	–3	2.4	NM	0.7	NM	NM	NM	8	NA	NA	762	0.8
BETHLEHEM STEEL	1240.7	10	52.5	307	4.2	1.1	8.7	6.8	22	–11	NA	1689	0.7
BIRMINGHAM STEEL (6)	236.9	16	13.3	159	5.6	2.5	8.3	10.2	13	23	3	593	1.6
CARPENTER TECHNOLOGY (6)	211.6	21	15.4	20	7.3	7.4	11.1	18.4	11	–7	–1	460	5.3
COMMERCIAL METALS (4)	533.0**	36	10.3	141	1.9	1.1	9.7	12.0	12	5	–2	404	2.2
INLAND STEEL INDUSTRIES	1257.7	17	44.0	378	3.5	0.9	13.0	21.1	11	–24	NA	1242	2.6
J&L SPECIALTY STEEL	241.6	52	18.0	160	7.4	4.3	14.6	20.0	12	20	380	764	1.6
LTV	1161.5	9	51.2	235	4.4	1.4	11.7	12.6	9	NA	20	1590	1.5
LUKENS	260.0	18	9.1	NM	3.5	NM	8.8	11.6	15	6	–21	484	2.1
NATIONAL STEEL	752.7	21	44.7	–43	5.9	12.5	NM	39.2	4	–21	NA	527	3.2
NUCOR	841.7	30	67.3	93	8.0	5.4	17.4	23.1	18	13	27	4629	2.9
OREGON STEEL MILLS	187.0	–13	1.9	–48	1.0	1.7	NM	3.7	37	21	–19	373	0.5
QUANEX (2)	199.9	34	4.7	163	2.3	1.2	9.8	10.8	20	1	–30	309	1.1
ROUGE STEEL	320.3	–3	26.0	38	8.1	5.7	NA	42.7	4	NA	NA	565	5.2
USX–U. S. STEEL GROUP	1577.0	14	74.0	NM	4.7	NM	17.6	31.2	9	NA	NA	2507	3.7
WCI STEEL (2)	175.1	10	10.9	191	6.2	2.4	19.7	68.9	5	NA	NA	215	1.1
WEIRTON STEEL	354.7	9	32.1	NM	9.1	0.9	19.2	44.8	5	–15	NA	328	1.7
WORTHINGTON INDUSTRIES (7)	370.1	15	28.7	45	7.7	6.1	NA	19.9	16	9	7	1781	1.2

RPORATE SCOREBOARD

PANY	SALES		PROFITS				RETURN						
					MARGINS					5-YEAR GROWTH		MARKET VALUE	
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	SHARES OUTSTANDING 4-21 $ MIL.	12* MONTHS' EARNINGS PER SHARE
THER METALS													
JP COMPOSITE	**4337.8**	**49**	**497.7**	**173**	**11.5**	**6.2**	**9.6**	**14.5**	**16**	**8**	**-24**	**17726**	**1.47**
CD	791.0	79	65.7	147	8.3	6.0	7.1	6.8	11	0	-22	1121	2.45
US AMAX MINERALS	784.0	33	97.0	411	12.4	3.2	8.4	9.7	11	16	-17	2511	2.45
PORT-McMORAN	663.3	48	24.9	6	3.7	5.2	9.4	NM	48	NA	-24	2418	0.37
PORT-McMORAN COPPER & GOLD	408.8	54	57.4	122	14.0	9.7	8.6	25.8	39	26	-15	4248	0.53
ESTAKE MINING	179.9**	4	6.6	-73	3.6	14.0	7.9	10.3	41	-9	NA	2480	0.44
MA COPPER	297.5	70	51.8	580	17.4	4.3	11.2	14.8	7	10	-14	783	2.43
PS DODGE	1033.5	49	185.3	281	17.9	7.0	13.7	17.7	9	9	-7	3812	5.74
ERINE TUBE	179.8	39	9.1	31	5.1	5.4	13.2	20.9	13	44	166	354	1.97
NONBANK FINANCIAL													
STRY COMPOSITE	**68746.8**	**10**	**5521.5**	**21**	**8.0**	**7.4**	**9.4**	**14.3**	**13**	**11**	**13**	**240679**	**3.39**
INANCIAL SERVICES													
JP COMPOSITE	**35219.5**	**11**	**2837.6**	**-9**	**8.1**	**9.9**	**8.7**	**15.4**	**14**	**16**	**21**	**132656**	**3.20**
NDER & ALEXANDER SERVICES	324.2	0	41.7	NM	12.9	NM	NM	-26.6	NM	-8	NA	1011	-1.88
HANY	397.1	-17	0.8	-95	0.2	3.5	5.6	5.1	21	11	10	1111	7.44
ICAN EXPRESS	3771.0**	12	353.0	11	9.4	9.4	17.4	22.5	13	5	12	17355	2.76
CAPITAL	362.8	11	25.1	59	6.9	4.8	5.6	10.7	11	NA	NA	1245	2.32
STEARNS (6)	1027.4	14	82.7	-28	8.1	12.8	13.7	9.2	16	14	30	2219	1.26
FICIAL	560.2	4	20.7	-66	3.7	11.3	5.8	10.3	16	10	7	2074	2.52
(H&R) (8)	261.5	17	8.1	NM	3.1	NM	35.4	35.4	22	9	11	4334	1.85
AL ONE FINANCIAL	219.2	48	25.1	-29	11.5	23.7	29.0	17.0	15	NA	NA	1305	1.28
TRYWIDE CREDIT INDUSTRIES (10)	224.5	-20	19.4	-59	8.6	16.8	10.4	9.5	18	64	56	1621	0.96
WITTER, DISCOVER	1367.6**	8	222.1	6	16.2	16.5	NA	18.3	10	NA	NA	7432	4.42
RDS (A. G.) (10)	292.1	-9	32.1	-20	11.0	12.4	NA	14.1	12	22	30	1441	2.00
AX	384.2	20	29.5	21	7.7	7.6	23.3	34.7	19	1	14	2419	1.68
E MAE	5288.4**	23	552.0	6	10.4	12.1	NA	22.0	11	30	27	23170	7.94
AL HOME LOAN MORTGAGE	2130.0	35	258.0	-7	12.1	17.6	4.5	18.4	12	24	18	11591	5.22
A GROUP	177.7	140	22.4	93	12.6	15.7	8.5	11.1	11	15	16	934	3.13
FINANCIAL MANAGEMENT	684.3	48	35.4	20	5.2	6.4	NA	11.8	28	24	3	4526	2.67
EHOLD INTERNATIONAL	931.5	0	96.0	24	10.3	8.3	NA	16.3	12	13	3	4383	3.69
AN BROTHERS HOLDINGS (1)	707.0	NA	45.0	NA	6.4	NA	NA	NA	NA	NA	NA	2012	NA
H & McLENNAN	955.2	5	124.8	-5	13.1	14.4	20.5	25.8	16	10	4	5948	5.13
ILL LYNCH	5203.9**	10	227.3	-39	4.4	7.8	38.0	16.7	11	13	54	8053	4.12
AN STANLEY GROUP (11)	2337.0	12	39.0	-78	1.7	8.7	NA	8.8	16	22	12	5173	4.18
WEBBER GROUP	1233.9**	14	34.3	-38	2.8	5.1	27.3	0.1	NM	21	8	1651	-0.05
E MAE	960.8	49	83.7	-31	8.7	18.9	5.7	28.0	8	8	19	2853	4.70
MON	743.0**	5	81.0	23	10.9	9.3	NM	-13.0	NM	7	NA	3652	-4.26
AB (CHARLES)	376.1	16	38.4	1	10.2	11.8	23.2	29.0	20	26	61	2681	1.55
LERS	4298.9	-10	340.0	0	7.9	7.1	13.4	15.8	10	30	26	12463	3.90
SURANCE													
JP COMPOSITE	**30840.6**	**9**	**2499.2**	**75**	**8.1**	**5.0**	**11.0**	**13.8**	**12**	**7**	**6**	**101061**	**3.97**
LIFE & CASUALTY	4484.5**	4	160.8	252	3.6	1.1	8.6	10.6	11	-3	-6	6393	5.16
	1713.7	23	84.9	21	5.0	5.0	16.7	17.6	13	20	28	3973	3.00
ATE	5570.0	7	541.7	NM	9.7	NM	NM	15.4	10	NA	NA	13481	2.90
ICAN GENERAL	1518.0	25	175.0	9	11.5	13.3	10.2	11.9	13	0	0	6599	2.55
ICAN INTERNATIONAL GROUP	6030.0**	15	572.2	13	9.5	9.7	10.6	13.7	15	15	9	32650	7.09
ICAN NATIONAL INSURANCE	349.6	9	45.4	25	13.0	11.3	10.1	10.8	7	6	19	1592	8.46
ECO	543.0**	11	24.4	-70	4.5	16.8	NA	15.5	13	NA	57	1008	3.12
ONT GENERAL	199.2	28	14.2	5	7.1	8.6	11.9	16.1	6	19	18	325	3.62
CE MANN EDUCATORS	182.0	1	17.1	42	9.4	6.7	15.0	16.9	9	47	83	630	2.40
LN NATIONAL	1483.7	-18	134.8	-11	9.1	8.4	10.8	11.8	12	8	9	3779	3.21
REVERE	358.4	12	17.2	-35	4.8	8.2	7.5	7.1	9	NA	NA	754	1.83
RESSIVE	693.8	33	60.7	26	8.7	9.2	18.0	25.9	10	23	38	2750	3.77
DIAN	797.6	6	94.5	48	11.8	8.5	13.2	15.6	11	12	6	3292	3.11
D	936.2**	4	65.2	16	7.0	6.2	11.8	11.4	11	10	5	3529	5.14
UL	1267.5	9	110.6	72	8.7	5.5	14.3	17.6	9	5	5	4231	5.68
MERICA (3)†	255.4**	17	47.4	18	18.5	18.3	19.4	23.9	12	14	36	1726	3.87
HMARK	530.0	6	69.0	-9	13.0	15.2	14.3	21.1	11	9	8	2888	3.65
SAMERICA	1420.5	15	96.3	-7	6.8	8.4	7.4	16.2	10	-1	13	3930	5.50
IN	338.9	0	31.2	23	9.2	7.5	8.7	8.7	15	0	1	2264	3.23
	955.1	9	63.4	-18	6.6	8.8	6.4	7.4	23	12	5	3132	1.92
	795.0	4	49.0	113	6.2	3.0	NA	23.2	6	-14	NA	1273	2.43
E	418.8	7	24.3	3	5.8	6.0	10.4	11.0	9	-1	8	861	4.20

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	SHARES OUTSTANDING 4-21 $ MIL.
(C) SAVINGS & LOAN												
GROUP COMPOSITE	**2686.8**	**20**	**184.7**	**789**	**6.9**	**0.9**	**NA**	**8.9**	**11**	**3**	**3**	**6962**
AHMANSON (H. F.)	930.0	19	50.7	-8	5.5	7.1	NA	6.1	13	8	-5	2328
DIME BANCORP	361.9	33	22.3	-28	6.2	11.4	NA	15.5	7	-1	NA	526
GLENDALE FEDERAL BANK (6)	339.0	25	40.9	NM	12.1	NM	NA	6.0	14	-9	NA	439
GREAT WESTERN FINANCIAL	827.2	17	43.5	-12	5.3	7.0	9.7	10.1	13	2	-9	2787
STANDARD FEDERAL BANK	228.7	16	27.3	-5	11.9	14.7	NA	14.5	8	14	26	882
18 OFFICE EQUIPMENT & COMPUTERS												
INDUSTRY COMPOSITE	**61915.9**	**20**	**4258.7**	**81**	**6.9**	**4.6**	**12.1**	**15.2**	**23**	**-3**	**5**	**289979**
(A) BUSINESS MACHINES & SERVICES												
GROUP COMPOSITE	**5349.0**	**19**	**246.2**	**-1**	**4.6**	**5.5**	**14.9**	**17.3**	**19**	**7**	**9**	**18271**
COMPUCOM SYSTEMS	323.5	15	3.8	39	1.2	1.0	9.5	20.2	9	27	44	135
CUC INTERNATIONAL (11)	281.7**	20	32.8	30	11.6	10.8	25.9	26.5	38	NA	62	4382
DELUXE	465.6	8	33.8	-11	7.3	8.8	14.7	16.8	18	6	-2	2523
DIEBOLD	197.0	11	15.2	20	7.7	7.2	14.3	14.4	19	4	14	1237
HON INDUSTRIES	216.5	8	12.6	8	5.8	5.8	21.9	28.4	15	9	13	813
INTELLIGENT ELECTRONICS (11)	821.4	11	-4.4	NM	NM	1.7	5.1	4.8	43	61	23	329
MICROAGE (2)	674.3	43	2.9	-37	0.4	1.0	9.5	8.7	8	47	12	125
MILLER (HERMAN) (7)	260.0	7	4.3	-62	1.6	4.6	7.8	8.0	21	0	-5	496
PITNEY BOWES	839.9	13	96.0	18	11.4	10.9	15.7	20.2	16	4	15	5503
REYNOLDS & REYNOLDS (3)	228.5	11	19.3	25	8.5	7.5	16.8	25.7	15	5	22	1089
STANDARD REGISTER	204.5	11	10.8	8	5.3	5.4	11.0	11.6	11	4	9	501
TECH DATA (11)	659.9	49	5.8	-34	0.9	2.0	16.0	13.7	11	39	32	392
WALLACE COMPUTER SERVICES (5)	176.2	15	13.4	5	7.6	8.4	10.4	11.3	15	11	3	746
(B) COMPUTERS & PERIPHERALS												
GROUP COMPOSITE	**46292.7**	**20**	**2871.9**	**159**	**6.2**	**2.9**	**10.2**	**12.6**	**20**	**-6**	**-15**	**148467**
AMDAHL	371.5	-2	20.6	190	5.5	1.9	9.5	10.1	17	-9	-17	1502
APPLE COMPUTER (3)	2652.0	28	73.0	319	2.8	0.8	14.3	20.1	9	11	-16	4691
AST RESEARCH (6)	670.2	13	-7.2	NM	NM	2.2	-8.7	-17.2	NM	26	1	550
COMPAQ COMPUTER	2959.0	30	216.0	1	7.3	9.4	21.1	22.3	11	22	16	9650
CONNER PERIPHERALS	610.4	8	0.1	NM	0.0	4.2	11.1	25.2	6	-2	9	505
DATA GENERAL (3)	283.8	0	-11.1	NM	NM	NM	NM	-1.7	NM	-8	NA	284
DELL COMPUTER (11)	1032.7	39	60.3	240	5.8	2.4	20.6	21.5	15	54	72	1944
DIGITAL EQUIPMENT (6)	3467.5	6	73.7	NM	2.1	NM	NM	-58.4	NM	-17	NA	6600
EMC	420.6	58	78.0	60	18.5	18.3	28.7	38.5	15	51	122	3758
HEWLETT-PACKARD (2)	7304.0	29	602.0	64	8.2	6.5	17.4	17.7	18	12	13	32651
INTERGRAPH	257.3	7	-22.5	NM	NM	NM	NM	-15.1	NM	-4	NA	521
INTERNATIONAL BUSINESS MACHINES	15735.0	18	1289.0	229	8.2	2.9	11.9	17.1	14	-15	NA	53849
MAXTOR (9)	275.9	6	1.1	NM	0.4	NM	NA	NM	NM	2	NA	269
SEAGATE TECHNOLOGY (6)	1184.6	30	70.3	5	5.9	7.4	12.2	17.6	9	22	147	2069
SILICON GRAPHICS (6)	552.0	47	64.2	83	11.6	9.3	15.8	20.1	28	41	33	5094
STORAGE TECHNOLOGY	450.2	13	-8.9	NM	NM	NM	5.1	3.2	19	25	-23	796
SUN MICROSYSTEMS (6)	1505.0	26	107.5	87	7.1	4.8	15.3	16.0	12	20	17	3566
TANDEM COMPUTERS (3)	515.9	7	21.7	-16	4.2	5.3	15.6	16.7	8	-5	6	1476
3COM (7)	338.7	55	45.3	NM	13.4	NM	21.0	27.1	37	6	NA	3562
UNISYS	1407.1	8	32.1	-7	2.3	2.7	4.8	-4.6	NM	-14	NA	1752
WESTERN DIGITAL (6)	529.3	26	19.7	-31	3.7	6.8	28.9	33.5	5	-9	NA	684
XEROX	3770.0	15	147.0	14	3.9	3.9	11.3	17.8	17	-5	2	12693
(C) COMPUTER SOFTWARE & SERVICES												
GROUP COMPOSITE	**10274.1**	**23**	**1140.6**	**14**	**11.1**	**11.9**	**18.6**	**22.6**	**30**	**23**	**21**	**123241**
AUTOMATIC DATA PROCESSING (6)	799.0**	18	125.3	19	15.7	15.6	17.4	20.1	24	12	13	8996
BAY NETWORKS (6)	337.1	27	46.0	44	13.7	12.0	12.9	15.1	34	138	166	3730
CABLETRON SYSTEMS (10)	226.0	34	45.5	36	20.1	19.9	27.3	27.6	21	80	53	3347
CERIDIAN	257.8	17	28.4	28	11.0	10.0	40.8	39.4	22	-22	NA	1538
CISCO SYSTEMS (5)	454.9	51	53.5	-31	11.8	25.6	30.3	31.5	32	152	122	10495
COMDISCO (3)	593.0**	12	26.0	8	4.4	4.5	7.8	7.4	21	3	-14	995
COMPUSA (6)	776.1	30	12.1	261	1.6	0.6	3.8	3.1	90	NA	NA	399
ELECTRONIC DATA SYSTEMS	2785.0	24	196.8	15	7.1	7.7	14.9	20.0	23	19	13	19810
FIRST DATA	437.5	16	50.2	15	11.5	11.6	16.5	21.1	29	21	18	5988
GTECH HOLDINGS (10)	185.9	20	7.5	-57	4.0	11.3	11.0	22.5	19	195	NA	973
LOTUS DEVELOPMENT	202.6	-18	-17.5	NM	NM	8.6	NM	-10.8	NM	17	2	1623
MICROSOFT (6)	1587.0	28	396.0	55	25.0	20.6	31.7	32.6	32	NA	42	43575
NEOSTAR RETAIL GROUP (11)	200.5	-1	1.9	-83	1.0	5.7	-4.7	-5.6	NM	NA	NA	160
NOVELL (2)	493.2	1	81.5	-14	16.5	19.3	12.0	12.2	39	44	26	7540
ORACLE SYSTEMS (7)	722.2	50	104.8	50	14.5	14.4	35.6	39.7	35	22	17	12937
SYBASE	216.3	33	-17.4	NM	NM	8.5	NA	13.7	24	75	92	1136

RPORATE SCOREBOARD

MPANY	SALES		PROFITS				RETURN						
					MARGINS					5-YEAR GROWTH		MARKET VALUE	**
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	SHARES OUTSTANDING 4-21 $ MIL.	12 MONTHS' EARNINGS PER SHARE
PAPER & FOREST PRODUCTS													
JSTRY COMPOSITE	**25912.1**	**24**	**1647.2**	**208**	**6.4**	**2.6**	**7.4**	**12.1**	**17**	**1**	**-9**	**70782**	**2.64**
FOREST PRODUCTS													
UP COMPOSITE	**6921.2**	**18**	**469.8**	**178**	**6.8**	**2.9**	**8.9**	**14.9**	**14**	**0**	**NA**	**15302**	**3.14**
E CASCADE	1223.0	30	57.0	NM	4.7	NM	NM	-1.8	NM	-13	NA	1216	-0.80
GIA-PACIFIC	3477.0	18	232.0	314	6.7	1.9	10.0	19.2	14	-3	NA	7136	5.62
SIANA-PACIFIC	686.8	-2	54.3	-36	7.9	12.2	13.9	17.1	9	10	24	2856	2.88
& TALBOT	173.1	3	-1.2	NM	NM	5.1	3.0	2.7	36	1	-14	219	0.46
INIER	285.8	11	25.1	16	8.8	8.4	10.0	11.2	13	-4	NA	935	2.47
ERSAL FOREST PRODUCTS	175.0	-2	3.5	46	2.0	1.4	11.6	16.6	9	NA	NA	107	0.67
AMETTE INDUSTRIES	900.6	33	99.1	201	11.0	4.8	11.6	17.6	12	9	-3	2834	4.43
PAPER													
UP COMPOSITE	**18990.9**	**26**	**1177.4**	**222**	**6.2**	**2.4**	**6.9**	**11.3**	**18**	**1**	**-12**	**55480**	**2.50**
ATER	449.5	46	45.1	NM	10.0	NM	NM	6.5	33	-6	NA	1326	1.09
MPION INTERNATIONAL	1634.0	33	131.2	NM	8.0	NM	5.8	6.7	20	-5	-38	3988	2.12
APEAKE	291.1	37	20.8	940	7.1	0.9	8.9	14.3	14	5	-10	772	2.36
SOLIDATED PAPERS	308.9	33	40.6	166	13.1	6.6	9.4	11.5	20	2	-17	2221	2.54
HOWARD	367.4	33	-9.5	NM	NM	NM	NM	NM	NM	NA	NA	91	-4.08
RNATIONAL PAPER	4500.0	32	246.0	224	5.5	2.2	6.7	9.2	15	5	-19	9316	4.80
S RIVER CORP. OF VIRGINIA	1637.3	48	22.1	NM	1.4	NM	NM	-2.5	NM	NA	NA	2134	-0.44
ERLY-CLARK	2014.6	13	108.7	-20	5.4	7.6	14.6	19.6	17	4	4	8771	3.16
VILLE	641.6	21	29.3	297	4.6	1.4	6.1	7.1	22	15	-25	1397	0.51
D	1240.8	23	61.7	288	5.0	1.6	5.8	6.7	22	4	-11	2925	2.32
ATCH	394.6	8	23.5	343	6.0	1.5	5.9	7.3	18	2	-20	1231	2.31
T PAPER	1003.3	21	96.9	240	9.7	3.4	13.0	19.0	20	-5	-3	6662	4.44
N CAMP	1021.1	29	105.0	832	10.3	1.4	8.0	11.5	17	0	-26	3509	3.01
TVACO (2)	741.7	28	49.3	212	6.7	2.7	5.6	7.2	21	4	-20	2860	2.04
ERHAEUSER	2745.0	15	206.6	63	7.5	5.3	9.2	15.6	12	1	12	8276	3.24
PUBLISHING & BROADCASTING													
JSTRY COMPOSITE	**12038.6**	**6**	**691.4**	**13**	**5.7**	**5.4**	**10.2**	**17.9**	**21**	**-2**	**4**	**76895**	**2.23**
BROADCASTING													
UP COMPOSITE	**2504.5**	**-6**	**179.7**	**-3**	**7.2**	**7.0**	**16.4**	**20.7**	**18**	**-5**	**15**	**16873**	**4.23**
TAL CITIES/ABC	1606.8	14	157.8	36	9.8	8.3	14.2	16.8	18	5	8	13095	4.68
	897.7	-28	21.9	-68	2.4	5.6	28.6	80.9	19	-31	25	3778	3.21
PUBLISHING													
UP COMPOSITE	**9534.1**	**9**	**511.7**	**20**	**5.4**	**4.9**	**9.1**	**17.1**	**22**	**-1**	**2**	**60022**	**1.92**
JONES	545.4	9	46.4	8	8.5	8.7	10.9	12.4	19	1	-3	3370	1.88
& BRADSTREET	1219.6	11	108.9	0	8.9	9.9	41.2	47.8	14	-12	1	8743	3.70
NETT	913.8	4	86.2	10	9.4	9.0	18.2	26.0	16	-2	6	7373	3.33
HT-RIDDER	674.6	7	35.7	17	5.3	4.8	11.5	14.4	17	7	-2	2936	3.29
RAW-HILL	568.5	2	14.0	-7	2.5	2.7	13.7	22.1	18	-1	0	3607	4.08
EDITH (6)	230.4	12	10.2	41	4.4	3.5	10.2	15.5	19	-6	-5	665	1.26
YORK TIMES	571.2	-3	27.4	54	4.8	3.0	10.6	14.4	11	9	-9	2296	2.17
ER'S DIGEST ASSOCIATION (6)	793.0	12	66.0	-5	8.3	9.8	25.5	26.7	26	12	12	5220	1.82
OLASTIC (7)	179.9	20	8.0	24	4.4	4.3	12.5	15.6	26	195	60	879	2.15
PPS (E. W.)	312.3	9	29.1	16	9.3	8.8	10.5	11.8	18	6	12	2364	1.65
WARNER	1817.0	17	-47.0	NM	NM	NM	-0.7	-8.7	NM	-31	NA	13418	-0.26
S MIRROR	774.0	6	15.1	101	2.0	1.0	7.1	6.6	18	0	-13	2347	1.00
UNE	532.8	11	68.0	70	12.8	8.3	14.8	19.9	16	5	1	3894	3.75
HINGTON POST	401.6	12	43.9	52	10.9	8.0	15.6	16.4	16	4	-1	2910	16.14
SERVICE INDUSTRIES													
JSTRY COMPOSITE	**22968.4**	**18**	**759.3**	**12**	**3.3**	**3.5**	**9.9**	**14.5**	**19**	**8**	**4**	**60542**	**1.55**
CONSTRUCTION & ENGINEERING													
UP COMPOSITE	**4061.0**	**12**	**95.8**	**67**	**2.4**	**1.6**	**9.0**	**10.1**	**25**	**6**	**9**	**7490**	**1.29**
EE ENTERPRISES (10)	205.4	15	2.4	NM	1.2	NM	7.8	10.6	18	6	-27	235	0.97
ER MFG.	194.9	66	3.6	NM	1.9	NM	18.1	25.8	9	12	7	177	4.09
G	338.2	4	9.4	20	2.8	2.4	NM	-6.9	NM	6	NA	910	-0.55
R (2)	2059.6	0	50.3	14	2.4	2.1	15.8	15.8	20	9	9	3992	2.40
ER WHEELER	643.6**	35	17.9	16	2.8	3.2	10.0	14.9	18	-3	14	1258	1.90
BS ENGINEERING GROUP (3)	396.7	46	7.6	3	1.9	2.7	8.6	9.2	26	28	13	495	0.76
E & WEBSTER	222.5**	17	4.7	NM	2.1	NM	2.3	2.6	44	1	NA	424	0.66
INDUSTRIAL DISTRIBUTION													
UP COMPOSITE	**7174.9**	**21**	**274.3**	**26**	**3.8**	**3.7**	**13.1**	**14.1**	**18**	**10**	**6**	**16007**	**1.86**
OW ELECTRONICS	1440.4	29	44.9	34	3.1	3.0	13.4	14.5	16	43	76	1979	2.64
T (6)	1129.2	25	36.4	44	3.2	2.8	9.1	10.8	14	7	6	1689	3.00
RINGS (6)	277.0	16	4.3	51	1.6	1.2	8.3	10.2	15	1	-6	245	2.08
STAR (1)	190.9	104	5.1	107	2.7	2.6	25.1	24.7	19	NA	NA	360	1.02
INE PARTS	1281.2	10	69.0	10	5.4	5.4	18.5	19.3	17	10	6	4874	2.38
Y PETROLEUM (11)	213.4**	9	6.3	-8	3.0	3.5	8.4	7.5	20	-6	NA	142	0.55
NGER (W. W.)	806.8	14	46.9	13	5.8	5.9	12.8	12.9	23	7	4	3039	2.61
HES SUPPLY (11)	205.3	21	2.9	42	1.4	1.2	NA	8.3	10	-1	-11	107	1.79
AN	210.0**	6	5.6	31	2.6	2.1	NM	-10.6	NM	-4	NA	214	-0.86

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS				RETURN					MARKET VALUE
					MARGINS					5-YEAR GROWTH		
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	SHARES OUTSTANDING 4-21 $ MIL.
MARSHALL INDUSTRIES (7)	261.6	32	10.1	29	3.9	4.0	12.1	14.0	13	12	10	477
PREMIER INDUSTRIAL (7)	198.4	12	24.5	18	12.3	11.6	21.8	23.0	20	15	7	2097
UNITED STATIONERS (4)	431.6	17	7.4	92	1.7	1.0	9.8'	7.9	16	9	-6	321
WILLCOX & GIBBS	278.8	14	4.2	144	1.5	0.7	NA	9.1	16	-2	-29	184
WYLE ELECTRONICS	250.0	42	6.7	218	2.7	1.2	11.0	11.6	15	13	4	280
(C) POLLUTION CONTROL												
GROUP COMPOSITE	**3046.1**	**14**	**114.4**	**-35**	**3.8**	**6.6**	**NA**	**14.1**	**19**	**11**	**0**	**15147**
RUST INTERNATIONAL	441.2	14	13.2	-6	3.0	3.6	NA	5.7	24	59	3	1310
WMX TECHNOLOGIES	2604.9	14	101.2	-38	3.9	7.1	8.8	15.9	19	9	1	13837
(D) PRINTING & ADVERTISING												
GROUP COMPOSITE	**2265.7**	**19**	**75.8**	**12**	**3.3**	**3.6**	**10.8**	**15.2**	**19**	**8**	**5**	**9103**
ADVO (3)	254.2	11	2.8	15	1.1	1.1	24.5	25.3	17	23	9	424
BANTA	233.0	24	11.0	15	4.7	5.1	12.5	14.7	14	12	13	684
DONNELLEY (R. R.) & SONS	1318.1	23	46.8	9	3.6	4.0	8.9	13.8	19	6	1	5071
INTERPUBLIC GROUP	460.4**	9	15.2	17	3.3	3.1	15.5	18.1	24	9	9	2924
(E) OTHER SERVICES												
GROUP COMPOSITE	**6420.7**	**19**	**198.9**	**25**	**3.1**	**3.0**	**8.9**	**18.1**	**16**	**5**	**4**	**12795**
ABM INDUSTRIES (2)	232.1**	10	3.4	20	1.5	1.3	10.9	11.9	14	12	7	210
BORG-WARNER SECURITY	462.4	5	0.1	-98	0.0	1.0	NM	20.5	23	-48	NA	201
COI	319.0	28	7.1	81	2.2	1.6	14.2	18.4	20	5	-6	508
EMPHESYS FINANCIAL GROUP	405.1	14	16.8	4	4.1	4.6	18.8	21.6	7	NA	NA	466
HANDLEMAN (8)	362.9	21	11.1	10	3.1	3.4	7.5	10.3	11	9	-3	352
INACOM	484.0	21	2.1	-20	0.4	0.7	NM	-2.0	NM	36	NA	84
KELLY SERVICES	620.7	17	12.3	33	2.0	1.7	14.9	14.9	20	8	-6	1281
MANPOWER	1199.6	48	18.2	190	1.5	0.8	30.9	47.1	25	58	NA	2359
MID ATLANTIC MEDICAL SERVICES	221.0	23	16.9	26	7.7	7.5	39.6	41.0	15	86	67	821
NORRELL (2)	186.1	21	3.8	-32	2.0	3.6	22.9	20.5	19	NA	NA	271
PHH (8)	494.1	-4	16.8	9	3.4	3.0	4.0	13.2	10	8	3	679
SAFETY-KLEEN	194.6	10	12.1	24	6.2	5.5	8.3	13.2	19	5	-3	989
SERVICE CORP. INTERNATIONAL	348.1	33	47.4	27	13.6	14.3	6.4	11.8	18	19	17	2609
SERVICEMASTER	707.8	8	28.9	18	4.1	3.7	26.6	46.9	13	NA	16	1815
VOLT INFORMATION SCIENCES (2)	183.3	29	2.0	NM	1.1	NM	15.0	17.4	9	-1	28	150
22 TELECOMMUNICATIONS												
INDUSTRY COMPOSITE	**55744.4**	**6**	**5266.0**	**15**	**9.4**	**8.7**	**11.6**	**19.0**	**16**	**2**	**1**	**328407**
(A) EQUIPMENT & SERVICES												
GROUP COMPOSITE	**26952.4**	**9**	**1825.7**	**12**	**6.8**	**6.5**	**12.7**	**19.5**	**17**	**12**	**9**	**132444**
AIRTOUCH COMMUNICATIONS†	367.2	33	35.3	28	9.6	10.0	3.3	3.1	NM	NA	NA	12530
ALC COMMUNICATIONS	177.8	37	20.0	36	11.2	11.3	37.1	61.1	20	NA	NA	1256
AT&T	18262.0	7	1198.0	12	6.6	6.3	15.3	27.0	16	5	10	77077
COMSAT	207.9	4	14.6	-28	7.0	10.1	6.0	8.6	13	7	-1	901
DSC COMMUNICATIONS	318.0	58	41.9	42	13.2	14.7	20.2	19.3	24	28	28	4002
LIN BROADCASTING†	199.2	4	12.7	NM	6.4	NM	28.8	198.8	11	NA	NA	6373
MCI COMMUNICATIONS	3561.0	11	244.0	17	6.9	6.5	7.3	9.0	17	32	9	15385
PACIFIC TELECOM	181.7	10	16.7	6	9.2	9.5	9.1	12.3	14	5	-4	1181
SPRINT	3271.5	8	224.3	-1	6.9	7.5	11.2	19.4	12	17	6	10884
TELEPHONE & DATA SYSTEMS†	210.0	32	23.2	127	11.0	6.4	NA	5.0	30	42	16	2049
U. S. ROBOTICS (3)	196.1	59	-5.0	NM	NM	8.2	8.5	10.0	47	90	44	805
(B) TELEPHONE COMPANIES												
GROUP COMPOSITE	**28791.9**	**3**	**3440.3**	**17**	**11.9**	**10.6**	**11.1**	**18.7**	**15**	**-1**	**-2**	**195964**
ALLTEL	763.6	9	78.6	9	10.3	10.2	9.3	17.2	18	14	5	4982
AMERITECH	3145.7	4	578.9	NM	18.4	1.4	17.7	26.3	14	-4	1	24195
BELL ATLANTIC	3449.7	1	414.5	5	12.0	11.6	12.4	23.4	17	-5	2	23445
BELLSOUTH	4298.7	4	547.1	-7	12.7	14.2	10.2	14.8	14	2	-1	30147
CINCINNATI BELL	331.8	14	-59.6	NM	NM	5.4	2.6	0.1	NM	0	-8	1583
FRONTIER	283.4	4	31.7	24	11.2	9.4	9.7	14.7	13	14	9	1445
GTE	4762.0	0	545.0	8	11.4	10.6	11.4	23.7	13	5	-3	32795
NYNEX	3354.2	2	250.2	-14	7.5	8.9	6.2	8.8	23	-2	0	17156
PACIFIC TELESIS GROUP	2254.0	-2	282.0	0	12.5	12.3	12.1	21.4	11	0	-23	12722
SBC COMMUNICATIONS	2877.7	9	395.2	10	13.7	13.5	11.9	20.2	15	-1	9	26267
SOUTHERN NEW ENGLAND TELECOMMS.	443.1**	5	46.7	7	10.5	10.3	9.7	19.0	12	-5	1	2137
US WEST	2828.0	7	330.0	2	11.7	12.3	12.8	19.0	13	-5	-6	19091
23 TRANSPORTATION												
INDUSTRY COMPOSITE	**35785.2**	**7**	**821.5**	**84**	**2.3**	**1.3**	**7.9**	**10.7**	**20**	**1**	**19**	**77909**
(A) AIRLINES												
GROUP COMPOSITE	**16336.3**	**2**	**-99.0**	**NM**	**NM**	**NM**	**5.7**	**-19.0**	**NM**	**-4**	**NA**	**15570**
ALASKA AIR GROUP	294.6	5	-16.3	NM	NM	NM	4.7	6.5	17	-13	-2	216
AMR	3970.0	4	38.0	NM	1.0	NM	5.8	6.9	12	-4	NA	4915
CONTINENTAL AIRLINES	1408.3	4	-30.2	NM	NM	NM	NA	-91.8	NM	NA	NA	383
DELTA AIR LINES (6)	2902.0	1	-11.0	NM	NM	NM	NM	-18.7	NM	-11	NA	2973

RPORATE SCOREBOARD

PANY	SALES		PROFITS				RETURN						
					MARGINS					5-YEAR GROWTH			
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	MARKET VALUE SHARES OUTSTANDING 4-21 $ MIL.	** 12 MONTHS' EARNINGS PER SHARE
HWEST AIRLINES	2043.0	-4	2.6	-86	0.1	0.9	10.8	NM	8	NA	NA	2172	3.23
HWEST AIRLINES	621.0	0	11.8	-72	1.9	6.8	8.8	12.1	21	18	27	3080	1.02
	3334.0	4	3.0	NM	0.1	NM	10.9	NM	27	-7	NA	1379	4.10
I GROUP	1763.3	5	-96.9	NM	NM	NM	NA	NM	NM	NA	NA	452	-10.95
AILROADS													
JP COMPOSITE	**9876.4**	**8**	**738.6**	**10**	**7.5**	**7.4**	**9.4**	**17.1**	**13**	**2**	**12**	**48928**	**3.52**
NGTON NORTHERN	1347.0	11	108.0	24	8.0	7.2	10.1	22.3	13	11	6	5342	4.72
GO & NORTH WESTERN HOLDINGS	307.0	12	26.7	67	8.7	5.8	NA	35.5	17	74	NA	1537	2.08
AIL	889.0	5	55.0	NM	6.2	NM	8.7	13.5	11	-5	22	4265	5.03
	2468.0	11	121.0	64	4.9	3.3	10.4	18.7	12	1	-1	8443	6.67
AS CITY SOUTHERN INDUSTRIES	302.2**	14	27.4	-1	9.1	10.4	8.0	15.8	17	15	24	1741	2.32
OLK SOUTHERN	1138.7**	6	170.7	18	15.0	13.5	8.9	14.8	13	-2	16	8887	5.14
A FE PACIFIC	679.7	8	22.3	-59	3.3	8.6	7.0	13.3	27	8	44	4402	0.88
HERN PACIFIC RAIL	766.8	2	16.5	10	2.2	2.0	14.4	23.5	11	NA	NA	2805	1.61
I PACIFIC	1978.0	6	191.0	-33	9.7	15.3	9.0	16.8	13	5	16	11507	4.20
RANSPORTATION SERVICES													
JP COMPOSITE	**4774.9**	**15**	**122.0**	**44**	**2.6**	**2.0**	**8.3**	**12.5**	**13**	**1**	**-1**	**7229**	**2.83**
RNE FREIGHT	529.9	14	1.9	-73	0.4	1.5	6.0	8.6	12	15	-3	409	1.58
L	212.2	9	1.7	32	0.8	0.7	NA	3.1	15	NA	NA	146	0.51
AL EXPRESS (7)	2332.6	12	63.1	102	2.7	1.5	11.0	14.0	13	4	9	3790	5.16
	288.2**	11	25.7	27	8.9	7.7	7.1	12.7	11	4	-3	883	4.15
STOWN AMERICA INDUSTRIES	178.4	91	3.0	94	1.7	1.7	NA	11.7	16	NA	NA	111	0.74
R SYSTEM	1233.5	15	26.6	12	2.2	2.2	6.9	13.9	12	-5	26	1890	1.99
RUCKING & SHIPPING													
JP COMPOSITE	**4797.7**	**11**	**59.9**	**1**	**1.2**	**1.4**	**5.6**	**6.9**	**25**	**6**	**-10**	**6183**	**1.01**
NDER & BALDWIN	263.0**	3	8.6	-49	3.3	6.6	5.5	10.5	15	-1	-18	1005	1.44
NSAS BEST	311.2	17	5.1	-8	1.7	2.1	7.7	6.5	14	79	89	193	0.72
INA FREIGHT	191.3	-1	-4.8	NM	NM	NM	4.3	4.7	11	-1	45	66	0.91
OLIDATED FREIGHTWAYS	1296.1	17	24.2	58	1.9	1.4	7.6	9.5	19	-4	NA	932	1.33
(J. B.) TRANSPORT SERVICES	309.4	17	4.9	-15	1.6	2.2	6.5	10.5	19	19	5	736	1.03
STAR SYSTEM	295.7	43	4.8	43	1.6	1.6	20.8	24.6	15	73	100	382	2.01
WAY SERVICES	1087.0	6	5.9	-63	0.5	1.6	0.9	0.9	NM	8	-20	1833	0.25
REIGHTWAYS	278.9	11	8.1	38	2.9	2.4	11.7	17.1	15	-9	36	512	1.61
W	765.0	2	3.2	NM	0.4	NM	2.0	1.2	93	1	NA	523	0.20
UTILITIES & POWER													
STRY COMPOSITE	**48780.4**	**-2**	**5183.2**	**4**	**10.6**	**10.0**	**6.4**	**11.3**	**13**	**3**	**0**	**214189**	**2.02**
LECTRIC, WATER & COGENERATION													
JP COMPOSITE	**40328.5**	**-3**	**4391.8**	**3**	**10.9**	**10.2**	**6.3**	**11.2**	**12**	**3**	**0**	**189325**	**2.05**
HENY POWER SYSTEM	700.0	0	81.5	2	11.6	11.5	6.1	10.7	13	6	0	2833	1.85
ICAN ELECTRIC POWER	1416.0	-5	161.9	-3	11.4	11.2	6.5	11.7	12	-1	-9	5963	2.68
ITIC ENERGY	218.6	-6	15.8	-42	7.2	11.7	5.3	7.4	16	9	-1	1006	1.19
MORE GAS & ELECTRIC	715.3	-7	70.9	-14	9.9	10.7	6.4	10.0	13	7	4	3485	1.85
INA POWER & LIGHT	728.2	-2	98.0	10	13.5	11.9	6.3	12.1	13	2	2	4281	2.10
ERIOR ENERGY	587.6	0	54.1	5	9.2	8.8	6.1	11.0	6	-9	-7	1295	1.40
RAL & SOUTH WEST	658.0	-23	43.0	-10	6.5	5.6	7.2	12.8	12	3	1	4694	2.05
RAL MAINE POWER	263.3	9	26.4	131	10.0	4.7	1.3	-3.3	NM	9	-2	345	-0.58
O	210.5	-7	17.3	19	8.2	6.5	7.2	13.4	11	2	6	992	2.54
ENERGY	1119.0	-2	93.0	15	8.3	7.1	7.1	17.5	11	-12	NA	2034	2.16
OLIDATED EDISON CO. OF N. Y.	1668.8	-2	201.0	6	12.0	11.2	7.5	13.4	9	4	4	6431	3.02
OIT EDISON	880.3	-2	113.5	1	12.9	12.5	6.0	11.8	10	7	0	4020	2.68
NION RESOURCES	1129.3	-3	119.6	-21	10.6	13.0	6.3	9.7	14	6	1	6207	2.60
	359.9	-4	61.0	6	17.0	15.3	7.8	14.2	13	1	1	2246	1.57
	301.0	-3	42.4	9	14.1	12.5	6.8	12.6	11	4	7	1765	3.06
POWER	1057.9	0	201.3	16	19.0	16.5	7.2	13.6	13	4	3	7990	3.01
DA PROGRESS	703.2	10	49.1	26	7.0	6.1	6.8	11.2	13	NA	-2	2879	2.35
ROUP	1177.4	0	109.7	5	9.3	8.9	7.3	12.5	13	6	-2	6880	2.95
RAL PUBLIC UTILITIES	914.0	-2	84.4	-34	9.2	13.7	4.3	4.5	29	5	-7	3355	1.00
IIAN ELECTRIC INDUSTRIES	306.3	16	19.6	44	6.4	5.1	6.1	11.6	12	7	-1	985	2.78
OVA	425.5	-4	39.5	19	9.3	7.5	5.5	10.8	11	-2	NA	1759	2.16
O ENTERPRISES	175.5	-3	26.7	-14	15.2	17.2	6.7	11.0	14	2	-3	1199	2.34
AS CITY POWER & LIGHT	198.9	0	22.9	131	11.5	5.0	5.9	13.0	12	1	0	1385	1.84
ISLAND LIGHTING	791.2	-9	70.3	1	8.9	8.0	NA	10.4	7	4	-1	1747	2.11
EST RESOURCES	294.5	-10	24.1	-21	8.2	9.3	NA	9.4	12	23	-11	785	1.18
ANA POWER	262.3**	-6	34.3	-12	13.1	14.1	7.2	10.9	12	3	8	1220	1.90
ENGLAND ELECTRIC SYSTEM	558.3	-3	49.8	-30	8.9	12.4	6.3	11.2	11	5	1	1990	2.74
YORK STATE ELECTRIC & GAS	571.9	1	75.6	-11	13.2	15.0	5.7	9.6	10	6	-2	1564	2.24
O INDUSTRIES	522.5	-8	62.6	-7	12.0	12.0	7.2	14.1	13	3	8	2077	2.42
HEAST UTILITIES	944.7	-2	97.0	-9	10.3	11.0	5.3	12.0	10	5	-3	2734	2.22
HERN STATES POWER	661.2	-3	68.2	4	10.3	9.6	6.9	12.3	13	5	1	2936	3.49
EDISON	587.7	-2	72.8	5	12.4	11.5	6.2	12.3	10	-2	-40	3090	1.99
HOMA GAS & ELECTRIC	246.5	-13	-0.9	NM	NM	0.5	7.4	12.9	12	1	-4	1371	2.95
GE & ROCKLAND UTILITIES	311.8	7	15.3	9	4.9	4.8	6.2	9.3	12	4	-3	427	2.59
IC GAS & ELECTRIC	2307.4	-8	328.7	39	14.2	9.4	6.7	12.1	11	3	4	11401	2.42
ICORP	854.2	-1	114.8	-5	13.4	13.9	NA	12.4	13	2	-14	5397	1.49
ENERGY	1058.6	-6	157.0	-2	14.8	14.1	5.2	9.2	15	4	29	5706	1.75

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS				RETURN					MARKET VALUE
					MARGINS					5-YEAR GROWTH		
	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	1ST QUARTER 1995 %	1ST QUARTER 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-21	COMMON EQUITY %	EARNINGS PER SHARE %	SHARES OUTSTANDING 4-21 $ MIL.
PENNSYLVANIA POWER & LIGHT	727.5	-5	108.3	-5	14.9	14.8	4.5	8.6	13	3	-5	2857
PINNACLE WEST CAPITAL	346.1	-3	29.5	1	8.5	8.2	NA	11.6	9	-3	73	1879
PORTLAND GENERAL	259.2	-7	0.6	-99	0.2	15.2	4.1	6.1	20	2	-4	1029
POTOMAC ELECTRIC POWER	364.9	-7	-4.0	NM	NM	3.7	4.8	9.8	12	8	-1	2321
PUBLIC SERVICE CO. OF COLORADO	620.6	1	53.6	15	8.6	7.6	8.8	13.0	11	7	-1	1834
PUBLIC SERVICE ENTERPRISE GROUP	1673.8	-7	224.2	-7	13.4	13.4	7.2	12.5	10	5	0	6699
PUGET SOUND POWER & LIGHT	338.3	3	48.7	5	14.4	14.1	6.1	9.1	13	7	-3	1336
ROCHESTER GAS & ELECTRIC	281.1	-9	30.5	-11	10.9	11.0	NA	8.5	13	6	-1	791
SAN DIEGO GAS & ELECTRIC	491.7	-3	61.9	3	12.6	11.9	5.7	9.4	17	4	-4	2389
SCANA	344.8	-1	48.5	-6	14.1	14.9	6.2	10.5	14	9	-1	2065
SCECORP	1834.0	5	164.3	15	9.0	8.2	6.5	11.4	10	3	-4	7165
SOUTHERN	1929.0	0	228.0	40	11.8	8.4	7.0	12.9	13	4	7	13879
SOUTHWESTERN PUBLIC SERVICE (4)	181.8	-4	18.7	8	10.3	9.2	7.7	13.5	12	2	-2	1151
TECO ENERGY	319.1	4	37.4	8	11.7	11.3	8.3	14.4	16	5	2	2440
TEXAS UTILITIES	1244.3	-4	99.1	5	8.0	7.3	5.9	8.5	13	0	-16	7396
UNICOM	1578.1	4	105.6	105	6.7	3.4	4.8	7.5	14	-5	0	5515
UNION ELECTRIC	447.1	2	38.2	0	8.6	8.7	7.0	13.6	12	3	2	3625
WASHINGTON WATER POWER	197.9	4	28.5	7	14.4	14.0	6.1	10.4	12	8	0	857
WESTERN RESOURCES	417.5	-22	41.6	-37	10.0	12.3	5.8	10.1	13	24	7	1895
WHEELABRATOR TECHNOLOGIES	373.3	33	43.7	9	11.7	14.3	NA	13.1	15	31	31	2746
WISCONSIN ENERGY	471.1	-8	62.8	171	13.3	4.6	NA	12.7	14	6	-1	2985
(B) GAS, OIL & TRANSMISSION												
GROUP COMPOSITE	**8451.9**	**1**	**791.3**	**8**	**9.4**	**8.8**	**7.6**	**12.3**	**15**	**6**	**12**	**24863**
BROOKLYN UNION GAS (3)	481.6	-12	73.6	0	15.3	13.4	6.9	10.9	13	10	3	1178
EASTERN ENTERPRISES	367.0	-1	30.6	6	8.4	7.7	7.2	10.9	15	-7	-7	612
EL PASO NATURAL GAS	204.1	-8	22.0	4	10.8	9.5	7.8	12.8	12	-19	NA	1035
ENRON	2300.0	-6	195.0	13	8.5	7.1	8.9	16.8	18	14	13	8494
EQUITABLE RESOURCES	404.7	-8	27.8	-24	6.9	8.3	6.0	7.0	19	9	3	986
MCN	548.0**	-17	63.2	-9	11.5	10.6	7.4	13.7	16	12	9	1151
NEW JERSEY RESOURCES (3)	194.3	-13	25.9	9	13.3	10.6	8.0	13.7	11	8	11	388
ONEOK (4)	287.4	-3	28.3	7	9.8	8.9	NA	10.2	14	2	2	509
PANHANDLE EASTERN	1232.1	7	84.1	30	6.8	5.6	7.0	12.0	14	9	11	3485
PIEDMONT NATURAL GAS (2)	202.5	-13	30.2	9	14.9	11.9	7.8	11.5	14	11	4	542
QUESTAR	215.9	-3	27.1	-13	12.5	13.9	2.6	6.9	27	8	3	1208
SOUTHWEST GAS	238.9	0	14.6	-36	6.1	9.5	NA	5.2	18	0	-18	317
UTILICORP UNITED	463.8	-7	32.2	-17	6.9	7.8	7.1	9.5	14	19	-2	1244
WASHINGTON GAS LIGHT (3)	353.7	-14	53.4	-3	15.1	13.4	7.6	10.9	15	5	3	805
WILLIAMS	958.0	148	83.2	105	8.7	10.5	8.8	14.1	16	10	25	2908

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A

A&P **10c**
Abbott Laboratories **12d**
ABM Industries **21e**
ACX Technologies **7b**
Advanced Micro **9d**
ADVO **21d**
Aetna Life & Casualty **17b**
AFLAC **17b**
Ahmanson (H F) **17c**
Air Products & Chemicals **4**
Airborne Freight **23c**
AirTouch Communications **22a**
AK Steel Holding **16b**
Alaska Air Group **23a**
Albemarle **4**
Albertson's **10c**
ALC Communications **22a**
Alco Standard **5**
Alcoa **16a**
Alexander & Alexander **17a**
Alexander & Baldwin **23d**
Alleghany **17a**
Allegheny Ludlum **16b**
Allegheny Power **24a**
Allergan **12b**
AlliedSignal **2b**
Allstate **17b**
Alltel **22b**
Alumax **16a**
Amdahl **18b**
Amerada Hess **11a**
American Brands **6e**
American Electric **24a**
American Express **17a**
American General **17b**
American Greetings **14d**
American Home **12b**
American Intl Group **17b**
American National **17b**
American Standard **13a**
American Stores **10c**
Ameritech **22b**
Ames Dept Stores **8**
Ametek **9a**
Amgen **12b**
Amoco **11a**
AMP **9d**
Amphenol **9d**
AMR **23a**
AmSouth Bancorporation **3c**
Analog Devices **9d**
Anheuser-Busch **6c**
Apogee Enterprises **21a**
Apple Computer **18b**
Applied Materials **15c**
Arbor Drugs **12a**
Arco Chemical **4**
Arkansas Best **23d**
Armco **16b**
Armstrong World **6b**
Arrow Electronics **21b**
Arvin Industries **2b**
Asarco **16c**
Ashland **11a**
AST Research **18b**
AT&T **22a**
AT&T Capital **17a**
Atlantic Energy **24a**
Atlantic Richfield **11a**
Automatic Data **18c**
AutoZone **8**
Avery Dennison **15a**
Aviall **23c**
Avnet **21b**
Avon Products **6d**

B

Baker (J.) **8**
Baker Hughes **11b**
Ball **7a**
Bally Entertainment **14c**
Baltimore G&E **24a**
Banc One **3b**
Bancorp Hawaii **3d**
Bank of Boston **3a**
Bank of New York **3a**
BankAmerica **3d**
Bankers Trust **3a**
BanPonce **3c**
Banta **21d**
Bard (C.R.) **12d**
Barnes & Noble **8**
Barnett Banks **3c**
Bausch & Lomb **12d**
Baxter International **12d**
Bay Networks **18c**
BayBanks **3a**
Bear Stearns **17a**
Bearings **21b**
Beckman Instruments **9c**
Becton, Dickinson **12d**
Bell Atlantic **22b**
BellSouth **22b**
Bemis **7b**
Beneficial **17a**
Bergen Brunswig **12a**
Best Buy **6b**
Best Products **8**
Bethlehem Steel **16b**
Beverly Enterprises **12c**
Big B **12a**
Bindley Western Inds **12a**
Birmingham Steel **16b**
Black & Decker **15b**
Block (H&R) **17a**
Boatmen's Bancshares **3b**
Bob Evans Farms **14a**
Boeing **1**
Boise Cascade **19a**
Bon-Ton Stores **8**
Borg-Warner Security **21e**
Bowater **19b**
Bradlees **8**
Briggs & Stratton **15c**
Brinker International **14a**
Bristol-Myers Squibb **12b**
Broadway Stores **8**
Brooklyn Union Gas **24b**
Brown Group **6a**
Brown-Forman **6c**
Brunswick **14d**
Burlington Northern **23b**
Burlington Resources **11a**
Butler Mfg **21a**

C

Cabletron Systems **18c**
Cabot **4**
Caldor **8**
Campbell Soup **10b**
Canandaigua Wine **6c**
Capital Cities/ABC **20a**
Capital One Financial **17a**
Cardinal Health **12a**
Caremark Intl. **12c**
Carlisle **15a**
Carnival **14d**
Carolina Freight **23d**
Carolina Power **24a**
Carpenter Tech **16b**
Carson Pirie Scott **8**
Case **15c**
Casey's General Stores **10c**
Caterpillar **15c**
CBS **20a**
CDI **21e**
CellStar **21b**
Centerior Energy **24a**
Central & South West **24a**
Central Maine Power **24a**
Ceridian **18c**
Champion Intl. **19b**
Charming Shoppes **8**
Chase Manhattan **3a**
Chemical Banking **3a**
Chesapeake **19b**
Chevron **11a**
Chicago & North Western **23b**
Chrysler **2a**
Cincinnati Bell **22b**
Cincinnati Milacron **15b**
Cipsco **24a**
Circuit City Stores **6b**
Circus Circus **14c**
Cirrus Logic **9d**
Cisco Systems **18c**
Citicorp **3a**
Clark Equipment **15c**
Clayton Homes **13b**
Clorox **6d**
CML Group **14d**
CMS Energy **24a**
Coastal **11a**
Coca-Cola **6c**
Coca-Cola Enterprises **6c**
Cole National **8**
Coleman **14d**
Colgate-Palmolive **6d**
Collins & Aikman **15d**
Coltec Industries **5**
Comdisco **18c**
Comerica **3b**
Commercial Metals **16b**
Compaq Computer **18b**
CompuCom Systems **18a**
CompUSA **18c**
Comsat **22a**
ConAgra **10b**
Conner Peripherals **18b**
Conrail **23b**
Conseco **17b**
Consolidated Edison **24a**
Cons. Freightways **23d**
Consolidated Papers **19b**
Consolidated Stores **8**
Continental Airlines **23a**
Continental Baking Group **10b**
Continental Medical **12c**
Cooper Industries **9a**
Cooper Tire & Rubber **2c**
Coors (Adolph) **6c**
Corning **15a**
Corporate Express **8**
Countrywide Credit **17a**
CPC International **10b**
Cracker Barrel **14a**
Crane **15a**
Crestar Financial **3c**
Crown Cork & Seal **7a**
CSX **23b**
CUC International **18a**
Cummins Engine **2b**
Cyprus Amax Minerals **16c**
Cytec Industries **4**

D

Dana **2b**
Danaher **15b**
Data General **18b**
Dayton Hudson **8**
Dean Foods **10b**
Dean Witter, Discover **17a**
Deere **15c**
Delchamps **10c**
Dell Computer **18b**
Delta Air Lines **23a**
Deluxe **18a**
Detroit Diesel **2b**
Detroit Edison **24a**
Dexter **4**
Dial **5**
Diamond Shamrock **11a**
Diebold **18a**
Digital Equipment **18b**
Dillard **8**
Dime Bancorp **17c**
Disney (Walt) **14b**
Dole Food **10b**
Dollar General **8**
Dominion Resources **24a**
Donnelley (R.R.) **21d**
Dover **15c**
Dow Chemical **4**
Dow Jones **20b**
DPL **24a**
DOE **24a**
Dresser Industries **15c**
Drug Emporium **12a**
DSC Communs. **22a**
Duke Power **24a**
Dun & Bradstreet **20b**
DuPont **4**

E

E-Systems **9b**
Eagle Food Centers **10c**
Eagle-Picher Industries **2b**
Eastern Enterprises **24b**
Eastman Chemical **4**
Eastman Kodak **14d**
Eaton **2b**

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

2b
12a
6d
Brothers 8
ic
ls (A.G.) 17a
21a
Natural Gas 24b
3b
sys Financial Group 21e
ard 4
4b
. 17a
ble Resources 24b

1a

enters of America 8
Dollar Stores 8
Mae 17a
2a
Express 23c
Home Loan 17a
Paper Board 7b
Signal 15a
Mogul 2b
ed Dept. Stores 8

est Cannon 15d
ird Bancorp 3b
Basement 8
a
ut 8
Group 17a
ank System 3b
icago 3b
ata 18c
delity 3a
nancial Mgmt. 17a
terstate Bancorp 3d
ssissippi 4
America Bank 3b
curity 3d
ion 3c
3b
nancial Group 3a
od Ents. 14d
Progress 24a
Industries 10b
1a
ic
on 10c
tor 2a
ward 19b
Wheeler 21a
up 24a
t-McMoRan 16c
t-McMoRan C&G 16c
t General 17b
22b
the Loom 6a
H.B.) 4

t 20b

3c
Container 7b
p 1
ech 12b
Dynamics 1
Electric 5
Instrument 9b
Mills 10b
Motors 2a
Nutrition 10c
Public Uts. 24a
Signal 15c
e Parts 21b

Gulf 4
-Pacific 19a
etroleum 21b
ood 10c
6d
le Federal Bank 17c
uys 6b
h (B.F.) 4
Family Clothing 8
ar Tire & Rubber 2c
W.R.) 4
er (W.W.) 21b
&P 10c
akes Chemical 4
Western 17c
b

Gtech Holdings **18c**
Guidant **12d**
Guilford Mills **15d**

H

Halliburton **11b**
Handleman **21e**
Hanna (M.A.) **4**
Hannaford Brothers **10c**
Harcourt General **5**
Harley-Davidson **14d**
Harman International **14d**
Harnischfeger **15c**
Harris **9b**
Harsco **15a**
Hasbro **14d**
Hawaiian Electric **24a**
Healthsouth **12c**
Hechinger **8**
Heilig-Meyers **6b**
Heinz (H.J.) **10b**
Helene Curtis Industries **6d**
Hershey Foods **10b**
Hewlett-Packard **18b**
Hillenbrand **15a**
Hillhaven **12c**
Hills Stores **8**
Hilton Hotels **14c**
Home Depot **8**
Home Shopping **8**
Homestake Mining **16c**
HON Industries **18a**
Honeywell **9c**
Horace Mann **17b**
Hormel Foods **10b**
Household Intl. **17a**
Hubbell **9a**
Hudson Foods **10b**
Huffy **14d**
Hughes Electronics **9b**
Hughes Supply **21b**
Humana **12c**
Hunt (J.B.) **23d**
Huntington Bancshares **3b**

I

IBM **18b**
IBP **10b**
Illinois Tool Works **15a**
Illinova **24a**
IMC Global **4**
InaCom **21e**
Ingersoll-Rand **15c**
Inland Steel **16b**
Integra Financial **3a**
Integrated Health Svcs **12c**
Intel **9d**
Intelligent Electronics **18a**
Interface **15d**
Intergraph **18b**
International Flavors **4**
Intl. Multifoods **10a**
International Paper **19b**
Intl. Specialty Prods. **4**
Interpublic Group **21d**
Interstate Bakeries **10b**
Ipalco Enterprises **24a**
ITT **5**

J

J&L Specialty Steel **16b**
Jacobs Engineering **21a**
James River **19b**
Jamesway **8**
Jefferson Smurfit **7b**
Johnson & Johnson **12d**
Johnson Controls **15a**
Johnstown America **23c**
Jones Apparel Group **6a**
JP Foodservice **10a**

K

Kaiser Aluminum **16a**
Kaman **21b**
Kansas City Power & Light **24a**
Kansas City Southern **23b**
Kash n' Karry **10c**
Kaufman & Broad **13b**
Kellogg **10b**
Kellwood **6a**
Kelly Services **21e**
KeyCorp **3b**
Kimball Intl. **6b**
Kimberly-Clark **19b**
Kmart **8**
Knight-Ridder **20b**
Kohl's **8**
Kroger **10c**

L

La-Z-Boy Chair **6b**
Lafarge **13a**
Lam Research **15c**
Lands' End **8**
Landstar System **23d**
Lear Seating **2b**
Lehman Brothers Holdings **17a**
Lennar **13b**
Lilly (Eli) **12b**
Limited **8**
LIN Broadcasting **22a**
Lincoln National **17b**
Litton Industries **9b**
Liz Claiborne **6a**
Lockheed Martin **1**
Loctite **4**
Long Island Lighting **24a**
Longs Drug Stores **12a**
Longview Fibre **7b**
Lotus Development **18c**
Louisiana Land **11a**
Louisiana-Pacific **19a**
Lowe's **8**
LSI Logic **9d**
LTV **16b**
Lubrizol **4**
Lukens **16b**
Lyondell **4**

M

Mac Frugal's **8**
Magma Copper **16c**
MagneTek **9a**
Mallinckrodt Group **12d**
Manor Care **12c**
Manpower **21e**
Manville **19b**
Mapco **11a**
Marion Merrell Dow **12b**
Mark IV Industries **15a**
Marriott Intl. **14c**
Marsh & McLennan **17a**
Marshall & Ilsley **3b**
Marshall Industries **21b**
Mattel **14d**
Maxtor **18b**
Maxxam **16a**
May Department Stores **8**
Maytag **6b**
McCormick **10b**
McDonald's **14a**
McDonnell Douglas **1**
McGraw-Hill **20b**
MCI Communications **22a**
McKesson **12a**
MCN **24b**
Mead **19b**
Medtronic **12d**
Mellon Bank **3a**
Melville **8**
Mercantile Bancorp. **3b**
Mercantile Stores **8**
Merck **12b**
Meredith **20b**
Meridian Bancorp **3a**
Merrill Lynch **17a**
Merry-Go-Round **8**
Meyer (Fred) **8**
Michaels Stores **8**
Micro Warehouse **8**
MicroAge **18a**
Micron Technology **9d**
Microsoft **18c**
Mid Atlantic Medical **21e**
Midlantic **3a**
Midwest Resources **24a**
Miller (Herman) **18a**
Minnesota Mining **15a**
Mirage Resorts **14c**
Mitchell Energy **11a**
Mobil **11a**
Mohawk Industries **15d**
Molex **9d**
Monsanto **4**
Montana Power **24a**
Morgan (J.P.) **3a**
Morgan Stanley **17a**
Morrison Restaurants **14a**
Morton International **4**
Motorola **9b**
Murphy Oil **11a**
Musicland Stores **14d**

N

Nabisco Holdings **10b**
Nacco Industries **15b**
Nalco Chemical **4**
National City **3b**
National Convenience **10c**
National Gypsum **13a**
National Medical **12c**
National Semicond. **9d**
National Service **9a**
National Steel **16b**
NationsBank **3c**
Navistar International **2a**
NBD Bancorp **3b**
NCH **6d**
Neiman Marcus Group **8**
NeoStar Retail **18c**
New England Electric **24a**
New Jersey Resources **24b**
New York State E&G **24a**
New York Times **20b**
Newell **15a**
Nike **6a**
Nipsco Industries **24a**
NL Industries **4**
Nordstrom **8**
Norfolk Southern **23b**
Norrell **21e**
Nortek **13a**
Northeast Utilities **24a**
Northern States **24a**
Northern Trust **3b**
Northrop Grumman **1**
Northwest Airlines **23a**
Norwest **3b**
NovaCare **12c**
Novell **18c**
Nucor **16b**
Nynex **22b**

O

Occidental Pet. **11a**
Office Depot **8**
OfficeMax **8**
Ohio Edison **24a**
Oklahoma G&E **24a**
Olin **4**
Oneok **24b**
Oracle Systems **18c**
Orange & Rockland Uts. **24a**
Oregon Steel Mills **16b**
OrNda HealthCorp **12c**
Outboard Marine **14d**
Owens & Minor **12d**
Owens-Corning **13a**
Owens-Illinois **7a**

P

Paccar **2a**
Pacific G&E **24a**
Pacific Telecom **22a**
Pacific Telesis Group **22b**
PacifiCorp **24a**
PaineWebber Group **17a**
Pall **5**
Pamida Holdings **8**
Panhandle Eastern **24b**
Parker Hannifin **15a**
Paul Revere **17b**
Payless Cashways **8**
PECO Energy **24a**
Penn Traffic **10c**
Penney (J.C.) **8**
Pennsylvania Power **24a**
Pentair **15c**
Pep Boys **8**
Perkin-Elmer **9c**
Petsmart **8**
Pfizer **12b**
Phelps Dodge **16c**
PHH **21e**
Philip Morris **6e**
Phillips Petroleum **11a**
Phillips-Van Heusen **6a**
Piedmont Natural Gas **24b**
Pier 1 Imports **6b**
Pilgrim's Pride **10b**
Pinnacle West **24a**
Pioneer Hi-Bred **10b**
Pitney Bowes **18a**
Pittway **5**
PNC Bank **3a**
Polaris Industries **15a**
Polaroid **14d**
Pope & Talbot **19a**
Portland General **24a**
Potlatch **19b**
Potomac Electric **24a**
PPG Industries **13a**
Praxair **4**
Premark Intl. **5**
Premier Industrial **21b**
Price/Costco **8**
Procter & Gamble **6d**
Proffitt's **8**
Progressive **17b**
Promus **14c**
Providian **17b**
PS Co. of Colorado **24a**
Public Service Ent. **24a**
Puget Sound Power **24a**
Pulte **13b**

Q

Quaker Oats **10b**
Quanex **16b**
Questar **24b**

R

Ralcorp Holdings **10b**
Ralston Purina Group **10b**
Raychem **9a**
Rayonier **19a**
Raytheon **9b**
Read-Rite **9d**
Reader's Digest **20b**
Reebok International **6a**
Regions Financial **3c**
Republic New York **3a**
Revco D.S. **12a**
Reynolds & Reynolds **18a**
Reynolds Metals **16a**
Rhone-Poulenc Rorer **12b**
Richfood Holdings **10a**
Rite Aid **12a**
Riverwood Intl. **7b**
RJR Nabisco **6e**
Roadway Services **23d**
Rochester G&E **24a**
Rock-Tenn **7b**
Rockwell International **5**
Rohm & Haas **4**
Rohr **1**
Rose's Stores **8**
Ross Stores **8**
Rouge Steel **16b**
Royal Caribbean Cruises **14d**
RPM **13a**
Rubbermaid **15a**
Ruddick **10c**
Russell **6a**
Rust Intl. **21c**
Ryder System **23c**
Rykoff-Sexton **10a**

S

Safeco **17b**
Safety-Kleen **21e**
Safeway **10c**
Sallie Mae **17a**
Salomon **17a**
San Diego G&E **24a**
Santa Fe Pacific **23b**
Sara Lee **10b**
SBC Communications **22b**
Scana **24a**
SCEcorp **24a**
Schering-Plough **12b**
Schlumberger **11b**
Scholastic **20b**
Schulman (A.) **4**
Schwab (Charles) **17a**
Scott Paper **19b**
Scotts **4**
Scripps (E.W.) **20b**
Seagate Technology **18b**
Sealed Air **15a**
Sears, Roebuck **8**
Service Corp. Intl. **21e**
Service Merchandise **8**
ServiceMaster **21e**
Shaw Industries **15d**
Shawmut National **3a**
Sherwin-Williams **13a**
Shoney's **14a**
ShopKo Stores **8**
Signet Banking **3c**
Silicon Graphics **18b**
Smart & Final **10a**
Smith (A.D.) **2b**
Smith International **11b**
Smith's Food & Drug **10c**
Smithfield Foods **10b**
Snap-on **15b**
Solectron **9d**
Sonoco Products **7b**
Southern **24a**
Southern New Eng. Tel. **22b**
Southern Pacific Rail **23b**
Southland **10c**
SouthTrust **3c**
Southwest Airlines **23a**
Southwest Gas **24b**
Southwestern PS **24a**
Spiegel **8**
Sports Authority **8**
Springs Industries **15d**
Sprint **22a**
SPX **15b**
St. Jude Medical **12d**
St. Paul **17b**
Standard Federal Bank **17c**
Standard Products **2b**
Standard Register **18a**
Stanhome **6d**
Stanley Works **15b**
Staples **8**
State Street Boston **3a**
Sterling Chemicals **4**
Stewart & Stevenson **15c**
Stone & Webster **21a**
Stone Container **7b**
Stop & Shop **10c**
Storage Technology **18b**
Strawbridge & Clothier **8**
Stryker **12d**
Sun **11a**
Sun Microsystems **18b**
Sun TV & Appliances **6b**
SunAmerica **17b**
Sunbeam-Oster **6b**
Sundstrand **1**
SunTrust Banks **3c**
Super Food Services **10a**
Super Rite **10a**
Supervalu **10a**
Sybase **18c**
Sysco **10a**

T

Talbots **8**
Tandem Computers **18b**
Tandy **6b**
Tech Data **18a**
Teco Energy **24a**
Tecumseh Products **13a**
Tektronix **9c**
Teledyne **5**
Teleflex **15a**
Telephone & Data Sys **22a**
Temple-Inland **7b**
Tenneco **5**
Teradyne **9c**
Terra Inds. **4**
Texaco **11a**
Texas Industries **13a**
Texas Instruments **9d**
Texas Utilities **24a**
Textron **5**
Thiokol **1**
3Com **18b**
3M **15a**
Tiffany **8**
Time Warner **20b**
Times Mirror **20b**
Timken **15c**
TJX **8**
TNT Freightways **23d**
Torchmark **17b**
Toro **6b**
Tosco **11a**
Toys 'R' Us **8**
Tracor **9b**
Trans World Entertainment **14d**
Transamerica **17b**
Travelers **17a**
Tribune **20b**
Trinova **15a**
TRW **5**
Tyco Intl. **15c**

U

U.S. Bancorp **3d**
U.S. Healthcare **12c**
U.S. Home **13b**
U.S. Robotics **22a**
U.S. Shoe **8**
U.S. Surgical **12d**
UAL **23a**
UJB Financial **3a**
Ultramar **11a**
Unicom **24a**
Unifi **15d**
Union Bank **3d**
Union Camp **19b**
Union Carbide **4**
Union Electric **24a**
Union Pacific **23b**
Union Texas **11a**
Unisys **18b**
United Stationers **21b**
United Technologies **1**
United Wisconsin Services **12c**
Unitrin **17b**
Universal Foods **10b**
Universal Forest Products **19a**
Universal Health **12c**
Unocal **11a**
UNUM **17b**
Upjohn **12b**
US West **22b**
USAir Group **23a**
USF&G **17b**
USG **13a**
USLife **17b**
UST **6e**
USX-Marathon **11a**
USX-U.S. Steel **16b**
UtiliCorp United **24b**

V

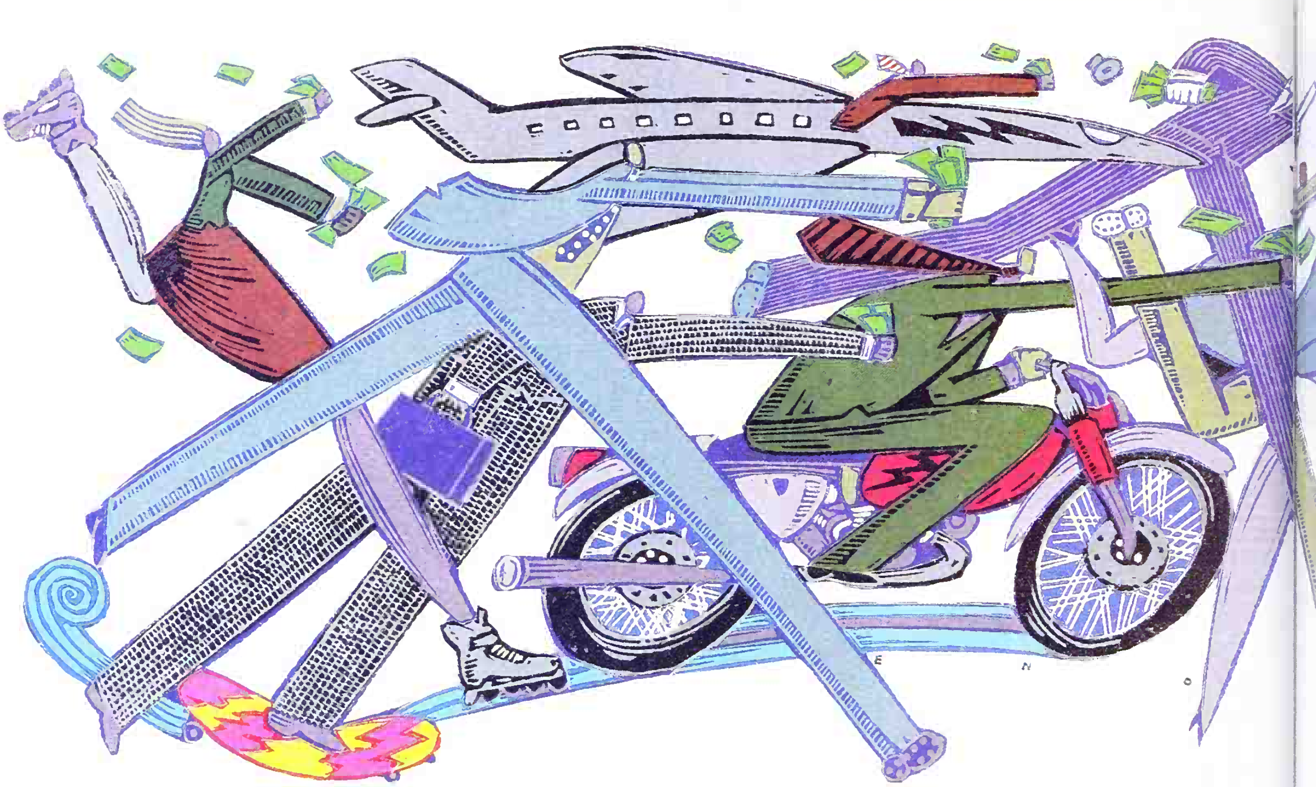
Valero Energy **11a**
Valhi **5**
Value City **8**
Varian Associates **9b**
Varity **15c**
Vastar Resources **11a**
Venture Stores **8**
VF **6a**
Viking Office Products **8**
Volt Info. Sciences **21e**
Vons **10c**
Vulcan Materials **13a**

W

Waban **8**
Wabash National **2b**
Wachovia **3c**
Wal-Mart Stores **8**
Walgreen **12a**
Wallace Computer **18a**
Warner-Lambert **12b**
Washington Gas Light **24b**
Washington Post **20b**
Washington Water Power **24a**
Watts Industries **15a**
WCI Steel **16b**
Webb (Del) **13b**
Weirton Steel **16b**
Weis Markets **10c**
Wells Fargo **3d**
Western Atlas **11b**
Western Digital **18b**
Western Resources **24a**
Westinghouse Electric **9a**
WestPoint Stevens **6a**
Westvaco **19b**
Weyerhaeuser **19b**
Wheelabrator Techs. **24a**
Whirlpool **6b**
Whitman **5**
Wickes Lumber **8**
Willamette Industries **19a**
Willcox & Gibbs **21b**
Williams **24b**
Williams-Sonoma **6b**
Winn-Dixie Stores **10c**
Wisconsin Energy **24a**
Witco **4**
WMX Technologies **21c**
Wolverine Tube **16c**
Woolworth **8**
Worthington Inds. **16b**
Wrigley (Wm.) Jr. **10b**
Wyle Electronics **21b**

XYZ

Xerox **18b**
Yellow **23d**
York Intl. **13a**
Younkers **8**
Zale **8**
Zenith Electronics **6b**



EDITED BY AMY DUNKIN

AN UNSETTLING DEADLINE FOR SETTLING TRADES

Charlie Pack is not looking forward to June 7. That's when a new federal regulation will require investors to fork over the cash to pay for securities in three days after a trade instead of five. The rule applies to all stocks, corporate and municipal bonds, and mutual funds. Pack is steamed because he'll lose flexibility over where he parks his cash. "It forces me to keep my money with the broker," says the 56-year-old software engineer from Los Altos Hills, Calif., who trades about twice a month.

INVESTING

Trade-plus-three, or T+3 as it's known, will undoubtedly make more money captive to brokerage money-market funds and asset-management accounts, where it's easily accessible to cover trades. But the Securities & Exchange Commission's stated reason for the shortened pay-up period is to make the markets more efficient and less volatile. The idea is to reduce the number of open transactions at any one time, hence increasing the liquidity of the markets. T+3 also means investors will receive sale proceeds two days sooner.

LATE FEES. For decades, investors who didn't already have spare cash with their brokers to pay for a purchase of stock, bonds, or mutual-fund shares have usually been able to wait to receive a confirmation notice before mailing in a check for the stated amount. Five business days for settlement was plenty, even for the U.S. Postal Service. But under T+3, that won't be the case. Instead, investors will have to deliver the checks in person, send them via overnight delivery service, pay by electronic transfer from your bank, or keep more cash on hand with your broker.

T+3 is already raising hackles with people used to buying securities under the old system. For one thing, they can no longer use their confirmation slips as payment notices. "They have to understand that by the time they get their confirmation, they should have already paid for the trade," says Allan Jo ston, regional manager Wedbush Morgan Securit in Anchorage, Alaska.

Indeed. this change co make mailing checks to y broker obsolete. "You ha to send the payment on day the trade is execute says Fidelity Investme Senior Vice-President Do Morris. "With the m there's no guarantee check will arrive by the s tlement day." If it does you can face fees for l payment or risk losing trade and being held lia for any losses in the sec ity or fund when the bro liquidates your position.

The shorter settlem deadline is especially pro matic for investors who h

k or bond certificate in
safe-deposit boxes.
ıg the paper security
the bank and to the
r to complete a sale
cost extra days. Many
avoid this problem by
the broker hold the
ties in what's known as
name—basically, book-
purchases in the bro-
ıame.

DISCOUNTS. But one
ı some investors hold
cates in their name is
rticipate at no cost in
nd reinvestment
(DRIPs). The DRIP
ıny does the
eeping and auto-
ally buys the
holder new lots
k, often at a dis-
with no commis-
f certificate hold-
move their
ties to a broker,
er, they are like-
be charged fees
e part in DRIPs.
some brokers are
to accommodate
customers. Dis-
broker Charles
ab offers free
services through its Schwab One account. In October, Fidelity Investments plans to offer a similar service called Equity Dividend Reinvestment Program.

Keeping cash in a brokerage money-market fund or asset-management account may well be the easiest and most efficient way to meet the shorter settlement deadline. Asset-management accounts, sometimes called core accounts, typically offer a choice of competitive money-market funds to capture stock dividends and sales proceeds and to hold cash for future purchases. They also provide extra services such as "gold" credit cards, debit cards, check-writing privileges, consolidated statements, and tax information. Some enable you to transfer money electronically to and from your bank. Most asset-management accounts also carry additional insurance against broker failure. The Securities Investor Protection Corp. insures regular brokerage accounts for up to $500,000, but it protects many asset-management accounts for $50 million or more.

At full-service brokerages, asset-management accounts generally require a $10,000 to $20,000 minimum and cost $75 to $100 a year, but most brokers offer a more basic version for $50 a year that may not have such extras as the enhanced insurance or credit card. And some discount brokers don't charge any fee for centralized cash accounts such as the Schwab One and Fidelity Ultra Service Account, which is free with at least one trade a year or a $50,000 minimum.

MOVING MONEY. Another way to go is to keep your money in a separate money-market account at the same brokerage firm as your securities or mutual funds. The difference is that you have to instruct your broker to move the funds to or from that account when you make a trade. With a cash-management account, the transfer is made automatically. But money-market funds carry small minimums and no extra service fees beyond the management expenses. "It makes sense to have a money-market fund with your broker," says John Markese, president of the American Association of Individual Investors. "There's no true loss because you're just moving money from one cash-equivalent account to another." Returns for most money-market funds don't vary much from one broker or fund company to the next.

If you have upwards of $250,000, you can use a bank trust department as the nexus of your brokerage activities. This enables you to "do all your transactions in one place while keeping the flexibility to deal with different brokers, which is good for frequent traders looking for the best price," says William Newell, managing director of private banking at Chemical Bank. But such freedom comes at a steep price. The fee for Chemical's private banking account is $800 a year.

The new three-day limit could make mailing checks to your broker obsolete

Mutual-fund holders will have an easier time adapting to T+3 since their securities are already in street name. But they still must have fund payments in by the third day after the trade to ensure buying shares at a specific price. Most people making long-term investments in mutual funds don't care about the exact purchase price. And in such cases, fund companies such as T. Rowe Price Associates will avoid confusion by waiting until they receive the funds before placing the trade, says Debbie Seidel, a T. Rowe Price vice-president.

Investors who chafe at the new T+3 rules may be distressed to learn that there are rumblings in the industry of eventually moving to one-day or even same-day trade settlements. But by the time that happens, advances in electronic banking should have pushed us to a true cashless society. And that's still T+many years away.

Pam Black

Speedier Securities Trades

▶If you have a sizable brokerage account, usually cash and securities totaling $10,000 or more, open an asset-management account. Stock dividends and sale proceeds will automatically be swept into your choice of competitive money-market funds, giving the broker ready cash for future trades.

▶Keep a separate money-market fund at your broker for quick cash transfers. You avoid the fees of an asset-management account. But you won't get extras such as check-writing privileges and you must instruct the broker to liquidate fund shares when money is needed.

▶To avoid delaying the completion of a trade while you send in paper stock and bond certificates, have your broker hold your securities in "street name."

DATA: BUSINESS WEEK

SMART MONEY

A SAFER WAY TO DRIVE DOWN WALL STREET

Convertibles, stung last year, are sweet deals now

If you'd like to buy shares of a certain company, but its lofty stock price makes you nervous, see if a convertible is available. Since these securities (most often bonds but sometimes preferred stocks) can be exchanged for a set number of common shares, their prices tend to track their companion stock on the way up. But because they pay coupons higher than the stock dividends, they don't fall as far in a downturn. The result: "You get nearly the same returns as the stock at less risk," says John Calamos, president of Calamos Asset Management in Naperville, Ill.

Convertibles are a particularly good value right now. Like all fixed-income investments, they got hammered last year when interest rates were rising. A lot of forced selling took place as managers liquidated holdings to cover leveraged positions. "That's why we feel this is an extraordinary time for someone to get into the convertible market," says Warren Bree, president of Wolverine Asset Management in New York.

CONVERSION COSTS. The main way to assess a convertible is to look at the "conversion premium." This is the difference between the common stock price and the price at which the convertible can be exchanged for stock. Convertibles nearly always trade at a premium, since you get the added benefits of higher yield, seniority in a bankruptcy, and the conversion option. But because you pay a premium, it rarely pays to convert the bond.

Right now, conversion premiums are the lowest they've been in years. At the end of 1993, new-issue convertibles typically carried a 25% premium. Now, you can find excellent ones, such as Barnett Banks or Ford Motor, trading at a 10% premium or less, Bree says. If the premium is low, the convertible tracks the stock much more closely, so on a bond with a 15% premium, you could figure on getting 85% of a stock's positive return. If the convertible isn't selling for much more than a similar corporate bond, you could be subject to only a fraction of the stock's decline.

If getting most of the upside and a lot less of the downside appeals to you, your best bet is to choose a diversified portfolio of convertibles through a mutual fund or money manager. This frees you from having to evaluate convertibles yourself. Top-performing funds for the past five years include MainStay Convertible (17.18% average annual return), Bond Fund for Growth (15.25%), and Fidelity Convertible Securities (15.02%). Check if the fund emphasizes current income or capital appreciation and review credit quality to find one that meets your risk tolerance.

Another way into the convertible market is to find a stock you like and then check out its convertible. "You never buy the convertible if you wouldn't buy the common stock," Bree says. To determine whether a convertible is a good deal, many investors compare the conversion premium to the difference between the convertible's yield and the stock dividend. If there is a 7%-a-year yield advantage to owning the, vertible, and you plan to it for three years, a 21% p mium may be justified, s Mitchell Cone, assistant m ager of Franklin Convert Securities. "You also have check what downside prot tion you're getting," s Cone. To do this, see how yield stacks up against t of similar quality paper. convertible's yield will climb past t level, no ma how far stock declin Also check call provision a convertibl called early, may not reco the premium paid.

VALUES. C pare converti to other issue the same in try. Cone is ing good val now in conv ible real est investme trusts, such Liberty Prop ty Trust, as as oil-and-gas sues such Parker & P sley Petrole Bree likes so regional bar and Calar likes the tered automo and financial sectors.

If you later grow so f of the company that you w to own the stock, you sho probably sell the convert and purchase shares, desp the cost of commissions, s Ted Everett, assistant p folio manager of Bond F for Growth. You should c convert the bond if the c pany calls it at a price below its market price o the dividends on the st are higher than on the c vertible—although that' rarity. Right now, converti are so attractive, conser tive investors may ne want to go back to own the stock. *Amey St*

ILLUSTRATION BY ROXANA VILLA

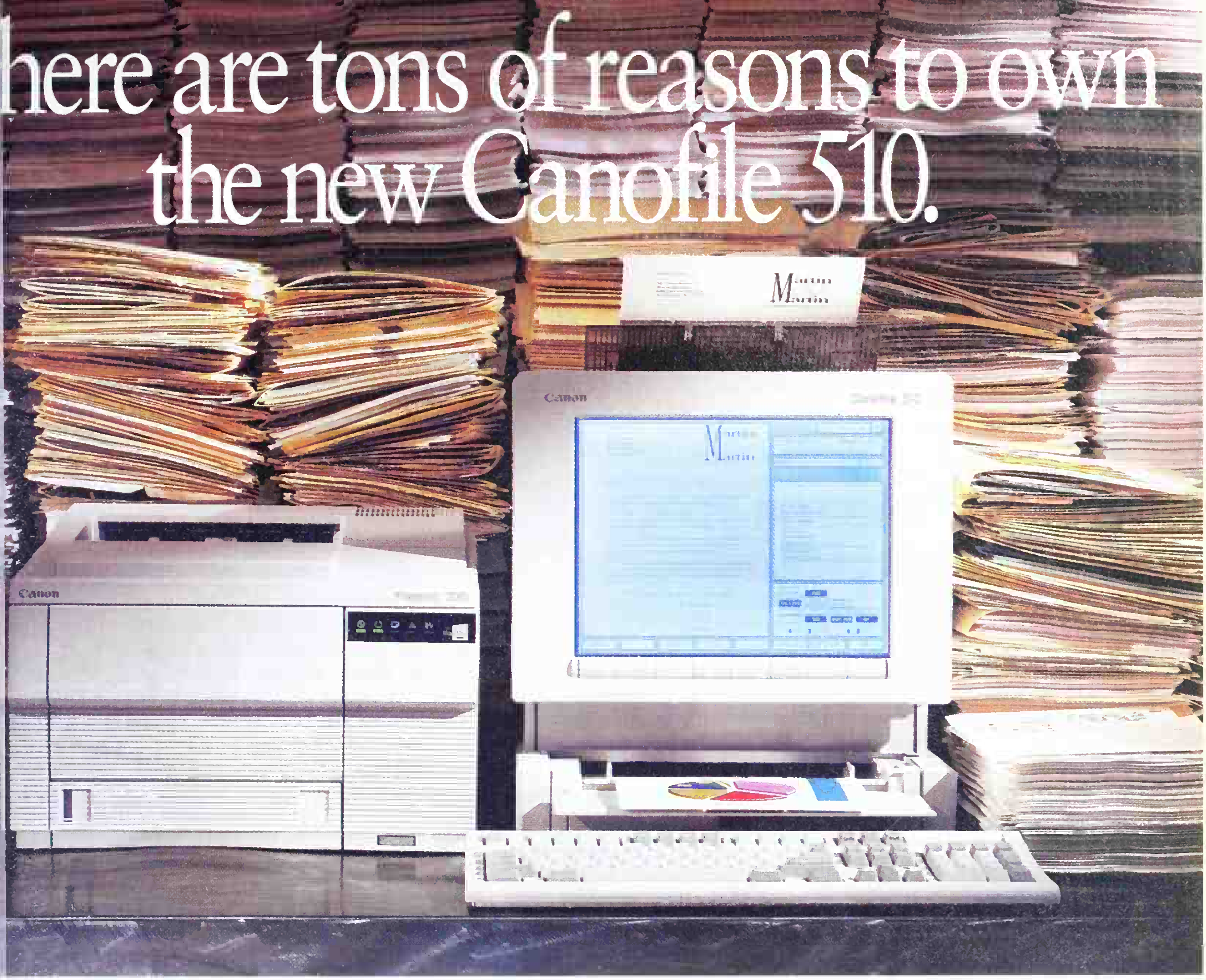
How Convertibles Temper Risk

Total return on the traditional equity and convertible securities of AMR Corp., parent of American Airlines, would vary markedly under different market scenarios

	CURRENT YIELD	PRICE (4/27/95)	SCENARIOS* STOCK FALLS 28% IN A YEAR	SCENARIOS* STOCK RISES 39% IN A YEAR
COMMON STOCK	0%	$68	$49(–28%)	$95(+39%)
CONVERTIBLE BOND	6.26%	$98	$85(–6.5%)	$121(+30%)

*Stock's potential movement based on its historical volatility

DATA: CALAMOS ASSET MANAGEMENT INC.



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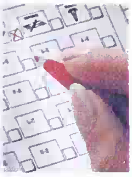

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Canon

PUTTING MAN INTO A FISH'S ENVIRONMENT

TRAVEL

If you think aquariums consist primarily of fish tanks stacked three-deep along darkened corridors, then you haven't visited one lately. The new Atlantic Coral Reef exhibit that opened on Apr. 7 at the National Aquarium in Baltimore features underwater caves and crevices alive with porcupine fish, wafer-flat lookdowns, and other exotic creatures, all contained in a doughnut-shaped tank with a descending ramp in the center. Chicago's Shedd Aquarium boasts a 3-million-gallon saltwater oceanarium housing beluga whales, Pacific white-sided dolphins, and harbor seals. And the three-year-old river museum in Chattanooga, Tenn., is home to a 65-pound catfish nicknamed Babba, who lives in the 25-foot-deep Nickajack Lake exhibit.

INTO THE DEEP: *Diver and sea turtle at Chicago's Shedd Aquarium*

GOOD STORIES. Ever since the Baltimore aquarium, which opened in 1981, started attracting more than 1 million visitors annually, U.S. cities have rushed to expand or build sea or fresh water museums. Some 36 are now operating, and around 20 are planned to open within five years, in places as diverse as Cleveland, Denver, Riverhead, N.Y., and Houston.

New technology has made such marine supershowcases possible. Hardy acrylic windows and elaborate life-support systems allow environmentally sensitive creatures to survive far from their tropical, polar, or river haunts. And novel interactive devices, such as the Flippers, Flukes & Fun exhibit that teaches about whale vocalization at the Monterey Bay (Calif.) Aquarium, engage visitors as never before. "Aquariums now offer quality entertainment-education, with a twist of conservation," says Kathy Cloyd Sher, deputy director in Baltimore.

Some newer sites capitalize on local marine life. The three-year-old Thomas H. Kean New Jersey State Aquarium in Camden displays such Jersey Shore inhabitants as brown sharks, silver dolphin fish, and horseshoe crabs. Chattanooga's facility lets visitors follow the path of the Tennessee River from an Appalachian cove forest to the Mississippi Delta. Rainbow and brook trout course through deep pools and a river in one 55-ft.-long stretch, and a delta panorama features red-bellied turtles and water moccasins. "The Tennessee Aquarium proves that freshwater stories are just as compelling as the saltwater stories," says Daniel Kohl, vice-president of Larson Co., a Tucson-based aquarium designer. He says "traditional lines between zoos, aquariums, and natural science museums are disintegrating."

RIBBET: *A red-eye tree frog in Baltimore*

Indeed, several zoos have diversified into the marine business. On Apr. 1, Omaha's Henry Doorly Zoo launched Kingdoms of the Seas, featuring an underwater tunnel that runs through a 900,000-gal. tropical reef system. Designed to mimic the sensation of walking at the bottom of the sea, the exhibit showc 2,000 species. On May 29 aquarium at the Colum Zoo in Powell, Ohio, will c a 100,000-gal. coral reef hibit that includes simul rolling ocean waves.

A CATFISH NAMED BABB
The Tennessee Aquariu

MALL WALK. For-profit op tors, inspired by Anheu Busch's Sea World park Florida and California, hope to make a big spl Tarlton Aquastar of Da will open two Underw World exhibits in 1996 San Francisco and in su ban Minneapolis' huge Ma America. The attractions transport visitors on mov walkways through acrylic nels teeming with marine Admission will be $11 adults and $5.50 for kids seniors—on par with mu pal-owned aquariums.

Sensitive to environn talists' concerns, some aq ium developers are emph ing their humane treatn of animals. The three-y old Oregon Coast Aqua in Newport expects to d thousands to see Keiko, 7,000-lb. killer whale starred in the movie *Willy*. Keiko, currently cramped enclosure in Me City, may find a 2-million pool more to his liking w he arrives by jet in Dec ber. Keiko won't have jump through hoops to his keep, but people sh find him entertaining way. *Johanna Knapscha*

WORTH NOTIN

COLLEGE SHOPPING. Turn this chore into a summer vacation with updated, user-friendly edition of *Visiting College Campuses* by Jan Spencer and Sandra Maleson (Random House, $19.95). The bo gives maps and travel times between schools campus tours, where t stay, and local sights f 250 colleges.

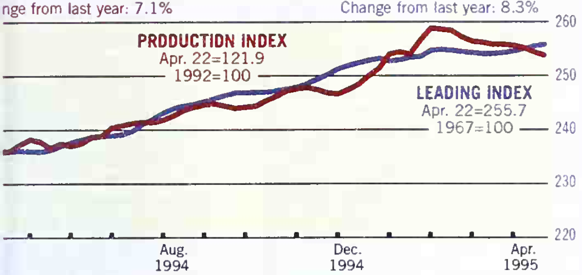
[illegible] PHOTOGRA[illegible] GEORGE GRALL/NATIONAL AQUARIUM IN BALTIMOR

siness Week Index

DUCTION AND LEADING INDEXES

nge from last week: –0.2%
nge from last year: 7.1%

Change from last week: 0.1%
Change from last year: 8.3%



xes are 4-week moving averages

roduction index fell slightly during the week ended Apr. 22. But the before calculation of the four-week moving average increased to 121.9, 120.7. Increased seasonally adjusted output of autos and rail-freight led the gain.

ading index increased further in the latest week. The unaveraged index, er, was unchanged at 256.1. Stock prices and M2 growth were lower in test week.

uction index copyright 1995 by The McGraw-Hill Companies   BW leading index copyright 1995 by CIBCR

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (4/28) S&P 500	513.18	506.04	13.7
ORATE BOND YIELD, Aaa (4/28)	8.00%	8.02%	2.4
STRIAL MATERIALS PRICES (4/28)	115.1	114.9	NA*
ESS FAILURES (4/21)	NA	313	NA
ESTATE LOANS (4/19) billions	$473.5	$472.5	11.1
Y SUPPLY, M2 (4/17) billions	$3,602.6	$3,606.5r	1.3
L CLAIMS, UNEMPLOYMENT (4/15) thous.	341	344r	–6.3

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ss failures and real estate loans. *Historical data available from CIBCR.

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
RAL FUNDS (5/2)	6.01%	5.97%	3.76%
ERCIAL PAPER (5/3) 3-month	6.12	6.09	4.38
IFICATES OF DEPOSIT (5/3) 3-month	6.07	6.08	4.35
MORTGAGE (4/28) 30-year	8.46	8.49	8.48
STABLE MORTGAGE (4/28) one-year	6.24	6.36	5.21
E (5/3)	9.00	9.00	6.75

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/29) thous. of net tons	1,995	2,031#	2.6
AUTOS (4/29) units	146,219	127,908r#	–1.9
TRUCKS (4/29) units	114,489	103,432r#	–3.4
ELECTRIC POWER (4/29) millions of kilowatt-hrs.	54,241	54,908#	–0.6
CRUDE-OIL REFINING (4/29) thous. of bbl./day	14,125	14,046#	0.4
COAL (4/22) thous. of net tons	19,478#	19,620	–9.2
PAPERBOARD (4/22) thous. of tons	927.0#	927.9r	8.1
PAPER (4/22) thous. of tons	852.0#	859.0r	8.0
LUMBER (4/22) millions of ft.	418.5#	434.3	–6.2
RAIL FREIGHT (4/22) billions of ton-miles	23.7#	23.2	2.2

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (5/3) $/troy oz.	388.700	388.900	3.7
STEEL SCRAP (5/2) #1 heavy, $/ton	137.50	137.50	1.9
COPPER (4/29) ¢/lb.	132.5	137.2	41.1
ALUMINUM (4/29) ¢/lb.	89.4	90.0	45.8
COTTON (4/29) strict low middling 1-1/16 in., ¢/lb.	107.65	106.12	37.3
OIL (5/2) $/bbl.	20.13	20.28	19.5

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (5/3)	83.25	83.97	102.75
GERMAN MARK (5/3)	1.37	1.38	1.67
BRITISH POUND (5/3)	1.62	1.61	1.50
FRENCH FRANC (5/3)	4.90	4.86	5.72
ITALIAN LIRA (5/3)	1664.5	1707.6	1604.5
CANADIAN DOLLAR (5/3)	1.36	1.36	1.38
MEXICAN PESO (5/3)[3]	5.840	5.825	3.300

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

CTIVITY AND COSTS

ay, May 9, 10 a.m. ▶ Output per orked in the nonfarm sector probably ery little in the first quarter. That's ted by the slower growth rates for nic output and total hours worked. tivity increased at an annual rate of n the fourth quarter. The small gain luctivity means that unit labor costs rew just a bit below the 1.7% pace fourth quarter.

L SALES

lay, May 11, 8:30 a.m. ▶ Retail robably rose by 0.5% in April, ing to the median forecast of MMS ational, one of the McGraw-Hill Cos.

Sales had been very weak in recent months, falling 1% in February and rising 0.2% in March. The solid gain in April likely reflects a late Easter and the receipt of tax refunds that were delayed as the government checked tax returns for fraud.

PRODUCER PRICES

Thursday, May 11, 8:30 a.m. ▶ Producer prices of finished goods likely increased 0.3% in April, after no change in prices in March. Yearly inflation at the producer level is running at less than 2%. And the recent reports from the National Association of Purchasing Management suggest that price hikes for business supplies are not sticking.

CONSUMER PRICES

Friday, May 12, 8:30 a.m. ▶ The MMS forecast projects a 0.3% increase in consumer prices in April, slightly faster than the 0.2% rise in March. Still, annual inflation should stay below 3%, as slower growth keeps price rises to a minimum. April's one wild card could be higher food prices, as shortages caused by the California floods begin to show up at the grocery store.

BUSINESS INVENTORIES

Friday, May 12, 10 a.m. ▶ Inventories held by manufacturers, wholesalers, and retailers probably increased 0.5% in March, say the MMS economists. Business stockpiles jumped 0.9% in February.

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MCI Telecommunications Corporation, 1995

MCI

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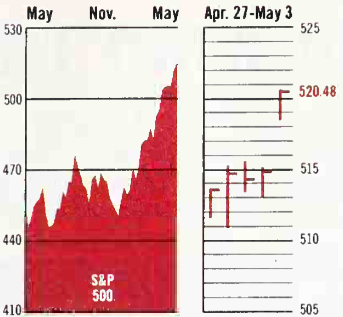
vestment Figures of the Week

NTARY

ks continue to rise and
:ontinue to fall. On May 3,
industrials jumped 44
close at a record 4373.
der Standard & Poor's
k index looked sharp, too,
the 520 level. What's
he market go is a potent
gher-than-expected earn-
falling interest rates. The
onomic indicators continue
toward a slowing economy
oid inflation outlook—con-
nat should keep interest
check.

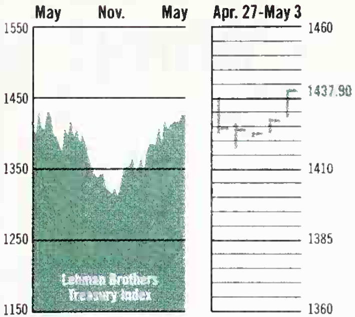
STOCKS



52-week change
+15.2%

1-week change
+1.5%

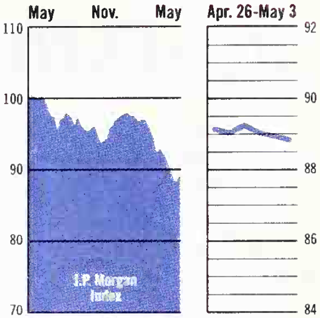
BONDS



52-week change
+1.4%

1-week change
+0.8%

THE DOLLAR



52-week change
-10.9%

1-week change
-0.3%

KET ANALYSIS

OCKS	Latest	% change Week	 52-week
ES INDUSTRIALS	4373.2	1.7	18.3
CDMPANIES (S&P MidCap Index)	186.2	0.9	7.4
MPANIES (Russell 2000)	266.8	0.7	4.9
PANIES (Russell 3DDD)	295.1	1.4	12.8

N STOCKS	Latest	% change (local currency) Week	 52-week
(FINANCIAL TIMES 1DD)	3262.6	1.1	6.3
IKKEI INDEX)	17,088.7	1.6	-12.7
(TSE COMPDSITE)	4300.3	0.4	0.7

FUNDAMENTALS	Latest	Week ago	Year ago
9D-DAY TREASURY BILL YIELD	5.79%	5.82%	4.13%
3D-YEAR TREASURY BOND YIELD	7.24%	7.32%	7.34%
S&P 5DD DIVIDEND YIELD	2.53%	2.50%	2.80%
S&P 5DD PRICE/EARNINGS RATIO	16.2	16.3	19.9

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	472.8	471.3	Positive
Stocks above 200-day moving average	63.0%	63.0%	Neutral
Speculative sentiment: Put/call ratio	0.70	0.63 r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.21	1.21	Positive

BLOOMBERG FINANCIAL MARKETS

STRY GROUPS

NTH LEADERS	% change 1-month	 12-month	Strongest stock in group	% change 1-month	 12-month	Price
GS AND LOANS	16.4	21.6	GDLDEN WEST FINANCIAL	20.3	18.7	46
ONDUCTORS	13.2	50.4	NATIONAL SEMICDNDUCTDR	32.1	12.1	23⅛
INE TOOLS	12.8	-1.6	CINCINNATI MILACRON	18.0	29.3	27
UTER SYSTEMS	11.5	46.7	SUN MICROSYSTEMS	17.6	76.8	40⅞
IEERING AND CONSTRUCTION	10.3	-8.1	MORRISON KNUDSEN	37.5	-65.3	8¼

NTH LAGGARDS	% change 1-month	 12-month	Weakest stock in group	% change 1-month	 12-month	Price
	-26.7	-20.0	U.S. HEALTHCARE	-36.7	-28.2	28
IALTY APPAREL RETAILERS	-10.7	-17.8	GAP	-12.7	-32.4	31
	-9.7	-15.2	NUCOR	-13.8	-21.1	48½
DCASTING	-8.1	1.7	TELE-COMMUNICATIONS	-14.3	-7.7	18
IALTY RETAILERS	-6.9	-8.6	LOWE'S	-20.3	-24.9	27½

UAL FUNDS

MORNINGSTAR INC

S

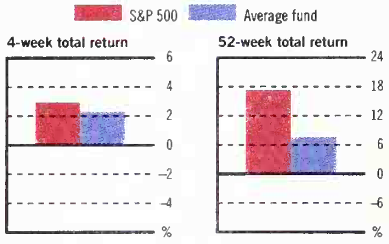
ek total return	%
AN STANLEY LATIN AMERICAN A	19.3
HT EQUIFUND-MEXICO NATL. FID. EQTY.	19.0
VESTMENT LATIN AMERICAN EQUITY	15.2

total return	%
MAN COMMUNICATIONS & INFDRM. A	57.1
FT SMALLER COMPANIES	46.8
TCH MID-CAP	46.5

LAGGARDS

Four-week total return	%
EV MARATHON GREATER INDIA	-6.9
AMERICAN HERITAGE	-6.6
MFS OTC A	-6.5

52-week total return	%
MDNITREND GOLD	-36.8
STEADMAN AMERICAN INDUSTRY	-34.3
STEADMAN OCEANOGRAPHIC TECHNDLDGY	-34.0



TIVE PORTFOLIOS

ORI/McGRAW-HILL

mounts represent the
value of $10,000
one year ago
portfolio

ages indicate
total returns

U.S. stocks	Foreign stocks	Treasury bonds	Money market fund	Gold
$11,721	$11,576	$10,687	$10,519	$10,359
+0.54%	+0.15%	+0.07%	+0.18%	-0.31%

n this page are as of market close Wednesday, May 3, 1995, unless otherwise indicated. ry groups include S&P 500 companies only; performance and share prices are as of market close May 2. Mutual fund returns are as of Apr. 28. Relative portfolios are valued as of May 2. A more detailed explanation of this page is available on request. r=revised NA=Not available

THE SENATE: A MIDDLE ROAD NOT TAKEN

If ever there was a time that America needed the Senate to play its characteristic role of stable, pragmatic policymaker, it is now. Fresh from its spring vacation, the Senate has before it some of the nation's most important legislation in decades. Through the Contract With America, House Speaker Newt Gingrich (R-Ga.) has focused on critical problems that must be solved for future prosperity: a chronic federal budget deficit, government regulation that has gone too far, a legal system that is too easily abused, and environmental laws that are too often byzantine and costly to business.

Unfortunately, the House has drafted a mishmash of sloppy proposals that offer unrealistic and sometimes contradictory solutions. The Senate, a more deliberative legislative body, would normally serve to modify the unreasonable and take moderate, bipartisan steps to remedy the wrongs of the status quo.

Sadly, its leaders appear to have another agenda. The siren call of Presidential politics is poisoning the legislative atmosphere of the Senate. Some aspirants to the White House are increasingly running from responsibility in their run for power. Because the nomination process is set up so that courting the extreme right seems to be essential to gaining the nomination, Presidential hopefuls appear willing and ready to sacrifice the nation's well-being in the process. It is a shameful spectacle.

Most disappointing is Senate Majority Leader Bob Dole (R-Kan.), a respected lawmaker who has built a lifelong reputation as a principled pragmatist who is more interested in solving complicated policy problems than scoring political points.

In his bid to preempt conservative firebrands such as Senator Phil Gramm (R-Tex.) and Representative Robert K. Dornan (R-Calif.), Dole has veered rightward, especially on critical economic and regulatory issues. True Senate conser
tives believe that there is nothing more important to
fiscal security of America than balancing its budget. But
ing this while also cutting taxes sharply defies fiscal logic
the past, Dole has been a deficit hawk. Now, he is throw
his weight behind tax cuts just when the country ha
chance of becoming fiscally responsible for the first time
more than two decades.

On the key issue of regulation reform, the Senate Majo
Leader has ganged up with other hardliners in throwing
support behind a bill that could allow restrictions on reg
tions to be applied retroactively to long-standing health, s
ty, and environmental rules. An alternative bill by William
Roth Jr. (R-Del.) is far more sensible, dealing with cost
efficiency without hamstringing regulators.

Presidential politics threatens to wreck what could h
been a year of historic legislative accomplishment. In
lurch to the right, the Senate leadership appears ready to
dorse tax cuts and legal and regulatory reform propo
that are certain to lead to legislative gridlock and Presiden
vetoes. Nothing will be solved, and the usual blame game
be the end result. Instead of listening to their campa
strategists, Senate leaders should pay heed to the wise v
of Senate Budget Committee Chairman Pete V. Dome
(R-N. M.), who is trying to persuade increasingly reluctant
low Republicans to swallow the tough cuts needed to bal
the budget by 2002.

The time is right for a consensus-building Senate Majo
leader to save the day on legal reform, regulatory re
and deficit reduction. The middle path might not comple
satisfy fringe groups. However, Dole, and other contend
may find that doing what's right for the country is good
itics, too.

ENGAGEMENT, NOT EMBARGO, IN IRAN

It is an odd sight to see the U.S. deeply engaged in serious negotiations with one outlaw nation, North Korea, while it moves to totally isolate another rogue regime, Iran. The embargo announced by President Clinton may appear sensible, given Tehran's propensity to support terrorists and its clear desire to build nuclear weapons. However, Washington's tough actions may end up yielding only angry European and Japanese allies, lost U.S. business, and an even more paranoid, hostile Persian foe.

By trying to isolate Iran, rather than engage it, Washington alienates that part of Iran's governing elite that has been pushing for normal relations with the West. In fact, Tehran's recent decision to choose Conoco Inc. rather than a French company to develop an oil field was the first obvious effort to begin dealing with the U.S., at least in narrow economic arenas, since the hostage crisis that ended 14 years
Had the Clinton Administration permitted Conoco to
ceed, it might have been the first of many bilateral ties.

As it is, the American embargo will have little effect.
many's sales to Iran totaled $2 billion in 1994, and it hope
sell even more. France, Britain, and other nations have
made it clear they intend to go on ignoring Washingt
pleas. The U.S. has no lock on oil-field equipment or ene
technology, and Iran will shop the global bazaars for wha
needs.

If there is a model for restraining outlaw nations f
making nuclear weapons, it is the one Washington is buil
with Pyongyang. It involves both carrots and sticks. So fa
appears to be working in north Asia. It's probably the l
shot in the Middle East as well.

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BusinessWeek

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HE 100 BEST SMALL CORPORATIONS

HOT GROWTH COMPANIES

PAGE 68

NSTER PROFITS

Joe Sutton's
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This Year's No. 1

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Too bad the other

luxury car companies

don't think so.

Introducing the Infiniti I30.

Flagship styling, space and performance for around $30,000.

Never before has a company worked so diligently to create a mid-priced luxury sedan that incorporates the styling, space, performance, safety and luxury of their flagship model. Witness the extraordinary Infiniti® I30.™

Through innovative technology, revolutionary design and sophisticated thinking, Infiniti has created a true luxury car for around $30,000.[*] One that doesn't sacrifice performance for luxury. Or luxury for performance.

Step inside the I30 and you'll experience a luxurious interior conceived to blend sophistication and comfort with state-of-the-art ergonomics.

The I30 actually has a larger interior than the Lexus ES 300, BMW 5 Series and Mercedes E Class luxury sedans. It even has more head room and front leg room than the Rolls Royce Silver Spur III.

But where the I30 truly redefines the mid-priced luxury sedan is under the hood. It possesses a revolutionary 190-horsepower, low-friction V6 that can out-accelerate many luxury V8s. In fact, its 0-to-60 time is faster than the BMW 740i, Mercedes-Benz S420 and Lexus LS 400.[**]

For around $30,000, most luxury car companies will offer you a car that only looks like their most expensive model. One that is under-powered, under-spaced, and under-appointed.

Infiniti thinks you deserve more. That's why the I30 is dedicated to giving you flagship styling and safety, with more performance, more space and more luxury than you ever thought $30,000 could buy.

INFINITI®

If there's something missing from your $30,000 luxury car, you'll probably find it in ours.

Some mid-priced luxury sedans simply don't have the same standards of luxury and performance as their higher-priced siblings.

But not the Infiniti I30.

The I30 has a luxurious interior with all the amenities. A six-speaker Bose® audio system with CD and cassette, and driver and front passenger power seats are just a few.

The ergonomically designed cabin also features an optional Integrated HomeLink® Transmitter.† An innovative remote control system, it can be programmed to control radio-operated garage doors, gates and security systems.

Simply glance under the hood and you'll find a remarkably compact 190-hp, V6, all-aluminum engine that allows for a more spacious interior cabin.

Study the I30 and you'll see that it's engineered with rear Multi-Link Beam™ suspension for a smooth ride and superb handling. The I30 is also equipped with 4-wheel anti-lock brakes, dual air bags, and protective steel side door guard beams.

But the most rewarding component in the I30 is the personal and attentive service bestowed upon all members of the Infiniti family. Every Infiniti owner enjoys The Total Ownership Experience,℠ 24-hour Roadside Assistance and a free service loan car.§

Unlike other luxury car companies, Infiniti recognizes $30,000 is a substantial amount of money. That's why the I30 meets the highest standards of luxury and performance ever imagined for a mid-priced luxury sedan.

For more information on the luxurious I30 or any of the other Infiniti luxury sedans, call 1-800-335-1413 and ask for the I30 video and brochure.

INFINITI.

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To Our Readers

AROUND THE WORLD IN 41 YEARS

On a clear, bone-chilling March day in 1954, a tall, 23-year-old Dartmouth College graduate named John Wills Patten walked into the Chicago office of McGraw-Hill to start work as a trainee. His job: to sell classified advertising for the company's trade magazines. Thus began a wide-ranging career at McGraw-Hill that culminated in a 10-year reign as publisher, then president, of BUSINESS WEEK. Now, 41 years later, Jack is retiring.

Jack's work took him all over the world on a remarkable variety of tasks. He traveled through New England selling advertising for McGraw-Hill's mining magazines. He opened the company's regional office in Denver. And for 13 years, he was based in London as European director for all of McGraw-Hill's magazines—a job that frequently took him to the Middle East as well. After returning to New York, Jack was named publisher of *Aviation Week,* a dream job for an Air Force veteran who still enjoys flying small planes.

Jack became publisher of BUSINESS WEEK in 1985, presiding over some of the magazine's most successful years. On his watch, our worldwide circulation grew to more than 1 million, the largest of any business magazine. Anticipating the globalization of business, Jack expanded our international edition and helped to launch three foreign-language editions—in China, Russia, and Poland. Last year, BUSINESS WEEK won the National Magazine Award for General Excellence, the highest honor in our industry.

JOHN W. PATTEN, PRESIDENT

SIGNING THE BW CHINA DEAL IN 1986

To those of us who have worked with him, Jack has been more than an accomplished and dedicated publisher. He's an endearing man—warm, quick with a quip, generous in his praise for a job well done, and strong in times of stress. Jack, who played end on the Dartmouth football team, is an avid sportsman who loves to fish, hunt, and play golf (his handicap is 12). He and his wife, Caroline, have two sons, who are also in the magazine business: John sells advertising for *National Geographic,* and James helps plan special events for BUSINESS WEEK.

Writer Beryl Markham once said: "If a man has any greatness in him, it comes to light, not in one flamboyant hour, but in the ledger of his daily work."

That's Jack—and we shall miss him.

David G Ferm

Publisher

Stephen B. Shepard

Editor-in-Chief

(RIGHT) AMY ETRA

BusinessWeek
MAY 22, 1995

COVER STORY

Getting there first and doing things better is the motto of this year's crop of Hot Growth Companies page 68

Special Report

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Brad Margus battles the disease that's struck two of his sons page 92

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TAKEN? *Workers are suing*

ESOP FABLES

UNITED WORKERS: WE WUZ ROBBED!

UNITED AIRLINES' WORKERS overpaid more than $1 billion for the carrier last year, alleges a federal suit filed by three employees. To implement their employee stock ownership plan, or ESOP, United workers made $5 billion in wage and work-rule concessions in return for 55% of the company's shares.

The dissidents' attorney, Kevin McBride, figures the concessions were worth about $200 a share. But workers received stock that started trading at $88. Even though workers paid extra for control of the company, McBride says the price was too high. The suit targets the ESOP's trustee, State Street Bank & Trust, which was supposed to make sure the deal was fair. The bank insists it acted in the employees' best interests. United itself is not named.

Will the suit fly? Since ESOPs started in 1974—there are 10,000 now—only 75 suits have been filed alleging overpricing. Employees have won half of them, reports the National Center for Employee Ownership. The center's executive director, Corey Rosen, says plaintiffs often lose if the stock is rising. UAL's stock price has risen 30%, to $115 since the deal went through. *Susan Chandler*

EXECUTIVE SUITES

A MEDIA KING'S COZY CASTLES

BLACK: *Posh pieds-à-terre*

THE AUSTERITY Conrad Black brings to his latest major acquisition doesn't apply to executive living quarters. Layoffs, employee buyouts, and cost-cutting have been the watchwords at the *Chicago Sun-Times* since the city's feisty second newspaper became part of Black's media empire 13 months ago. But the paper's parent, American Publishing, has shelled out $4 million on real estate for executives.

Some $3 million bought a New York co-op for megamillionaire Black to use rent-free, according to the company's recent proxy. An additional $1 million went to buy a Chicago condo for Chairman David Radler, a Vancouver (B.C.) resident who needs a place to stay when visiting. Union leaders grouse that it's a lot of money for a seven-year-old company that just turned its first annual profit.

Radler says the Chicago condo is an investment and a better deal for shareholders than costly hotel bills. He adds that Black's co-op will be used "to make this company grow."

Growth is sorely needed at the *Sun-Times*, whose circulation has fallen 4%, to 500,969, since American Publishing took over. Since then, investors have watched their stock drop to 10, from a 52-week high of 15. *Susan Chandler*

TALK SHOW "I feel after this decision that we're all gre
Americans."

—Naturalized American Rupert Murdoch, after the FCC allowed his News Corp. to seek a waiver of U.S. ownership limits.

THE FEDS

LIVE FREE AND DIE?

SAY FAREWELL TO A WHOLE truckload of Washington-mandated highway safety rules: the 55-mph speed limit, mandatory seat belt use, and required motorcycle helmets. Congress wants to ax these regs as part of a drive to give more power to the states.

DRIVE TIME: *Federal safety rules may*

While states technically aren't bound by Uncle Sam's rules, those that flout them lose a chunk of federal highway funds. Critics, though, think highway laws should be tailored to local conditions. Westerners particularly question the federal speed limit when there are vast stretches between towns. "Each state is the best judge of what the speed limit should be on its highways," gripes Senator Don Nickles (R-Okla.). He is fighting to repeal the speed limit as part of a pending highway spending bill.

Rule-backers fear Nick
popular plan will lead to m
fatalities. They note tha
1974, when the 55-mph sp
limit took effect, car-rela
deaths dropped by 1
When the limit rose in 1
to 65 mph in most areas,
talities shot up about 20%
tionwide, says Jacqueline
lan of the Advocates
Highway & Auto Safety.
Nickles says states can lo
speeds in accident-prone
as. Even with opposition f
the powerful auto-insura
industry, it looks like a cl
road ahead for many of
changes. *Christina Del V*

THE LIST FIGHT! SELL!

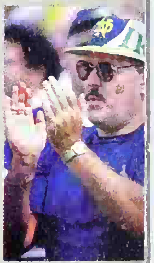
Colleges and universities, later to the licensing game than pro sports, are making up for lost time. Sporting logos and names on everything from T-shirts to credit cards has blossomed into a $2.5 billion business. According to industry consultant John Bevilaqua, being a perennial powerhouse such as Notre Dame—which had top royalties despite a so-so football season—doesn't hurt. Winning the national football title helped Nebraska break into the top five.

TOP-SELLING COLLEGE MERCHANDISE

LICENSER	REVENUE* MILLIONS
NOTRE DAME	$7.8
MICHIGAN	5.8
FLORIDA STATE	3.0
NORTH CAROLINA	1.8
NEBRASKA	1.7

*Estimates for year ending Mar. 31, 1995

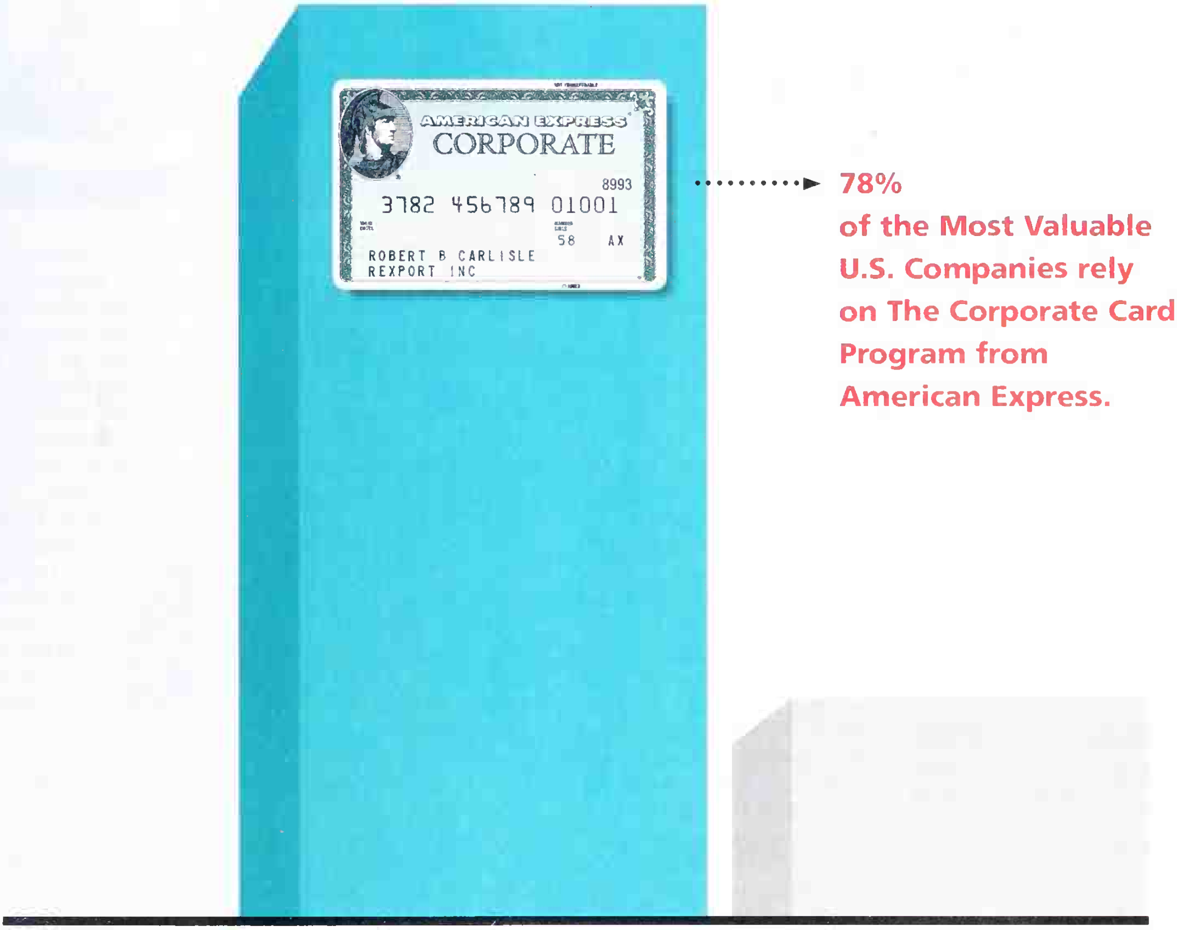
DATA: BEVILAQUA INTERNATIONAL INC., COLLEGIATE LICENSING CO., FLORIDA STATE UNIVERSITY, UNIVERSITY OF NORTH CAROLINA, UNIVERSITY OF NEBRASKA



TOPS IN TOG
THE IRISH

(CLOCKWISE FROM TOP LEFT) BROOKS KRAFT/SYGMA, ALON REININGER/CONTACT, JONATHAN DANIEL/ALLSPORT, JOY VON TIEDEMANN

The Choice.



78%
of the Most Valuable
U.S. Companies rely
on The Corporate Card
Program from
American Express.

The Reason.

Financial World's Most Valuable Companies understand the value of expense management. And when it comes to travel and entertainment expenses, 78% have chosen The Corporate Card Program from American Express. With over 20 years of experience, we offer a depth of resources that the newer Corporate Card providers can't match. Like our global capabilities. We help companies consolidate and manage all aspects of their T&E worldwide – from capturing and integrating global spending information to assisting employees wherever business takes them. Across town and around the globe, we're recognized as a valuable asset.

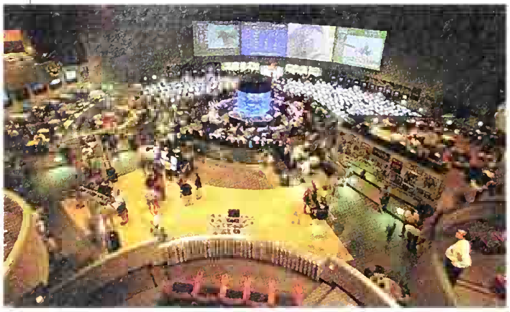
Source: The 100 Most Valuable Companies as listed in *Financial World's* Market Value 500, January 31, 1995. Percentage based on American Express information as of 1/1/95. ©1995 American Express Travel Related Services Company, Inc.

AMERICAN EXPRESS
Travel Management Services

Up Front

SPORTS BIZ

NOT YOUR FATHER'S OTB PARLOR



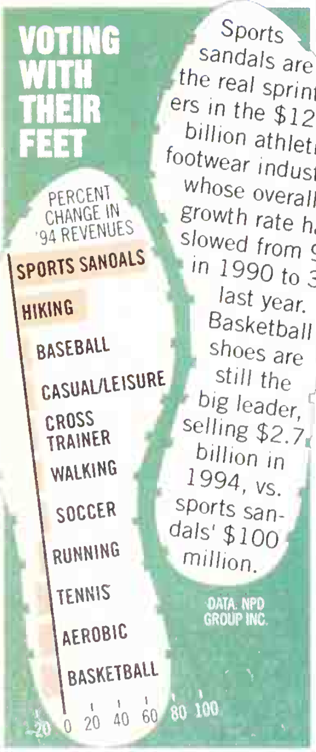
HORSE LATITUDES: *Pampered in New Haven*

GLITZ HAS COME TO THE gritty world of offtrack betting. In New Haven, a Vegas-like entertainment emporium has just opened, offering a shark tank, a discotheque, upscale bars, leather sofas—and oh, yes, wagering.

Autotote Enterprises, which owns and runs the Nutmeg State's OTB parlors, spent $9 million to buy and fix up the four-story building à la Caesar's. Called Sports Haven, it shows simulcast races from North American tracks—horses and greyhounds—on four massive overhead screens and hundreds of TVs. On Kentucky Derby day, May 6, it raked in $330,000, four times its downtown predecessor's take. New York and Illinois are trying a similar approach, although nothing on Sports Haven's scale.

The pitch is geared to younger customers, not the typical middle-age OTB crowd. Says Autotote President Rick Cowan: "It's vitally important if racing is to survive." Horse betting at the track is declining (down 5.5%, to $8.8 billion, in 1993) because of casino gambling's rise. Offtrack wagering, now in 11 states, rose 4% in '93, to $4.8 billion, only because more states are adding it. Oklahoma, for instance, just O.K.'d the idea. While OTB wagers are climbing in Connecticut, the amount bet has been falling in New York, the largest OTB state, since 1988. *Doug Royalty*

THE BIG PICTURE

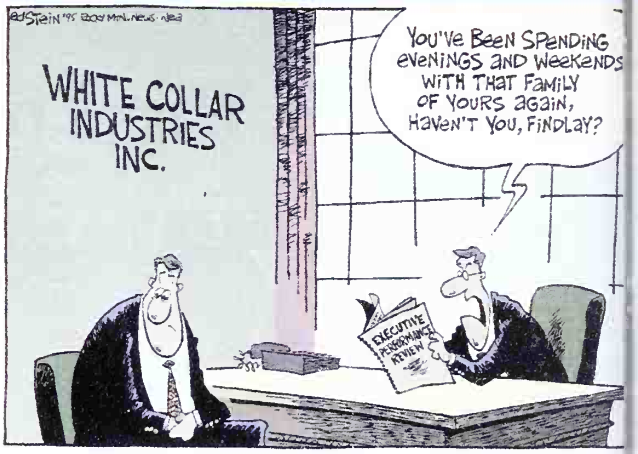


VOTING WITH THEIR FEET

Sports sandals are the real sprinters in the $12.4 billion athletic footwear industry, whose overall growth rate has slowed from 9% in 1990 to 3% last year. Basketball shoes are still the big leader, selling $2.7 billion in 1994, vs. sports sandals' $100 million.

DATA: NPD GROUP INC.

DRAWN & QUARTERED


EdStein '95 Rocky Mtn. News nea
WHITE COLLAR INDUSTRIES INC.
You've Been Spending evenings and weekends with that family of yours again, haven't you, Findlay?
EXECUTIVE PERFORMANCE REVIEW

CAVEAT EMPTOR

'SCAVENGERS WHO PICK THE BONES'

THE LATEST TRICK IN THE con artist's playbook is scamming victims of telemarketing fraud for the second time. In this scheme, called "the recovery room," swindlers offer to recover the victim's earlier losses on everything from phony prize promotions to fake wireless cable licenses. Some victims have forked over more than $100,000 to recovery rooms.

Con artists buy "sucker lists" from other scamsters for as much as $10 per name—mostly those of homebound seniors isolated from sound advice—who have previously been ripped off. Pocketing an advance fee th normally ranges from $400 $4,000, the scamsters opera under such respectable-soun ing names as the Bureau Consumer Awareness and t Consumer Protection Fou dation, the feds say. "They' scavengers who pick t bones of people says Federal Tra Commission atto ney David Fix.

In one case, a r tiree who had lo $100,000 on a pri promotion schen wired $250 to St ven Tinsley, a salesman wi Refund Information Servic in Las Vegas. The cash car from the retiree's Social S curity payments. Tinsl pleaded guilty in February mail and wire fraud and is jail awaiting sentencing. H recovery room is no long in business. *Phillip Zwe*

DIVERSITY

THE BEST B-SCHOOL FOR GAYS: HARVARD

HARVARD BUSINESS SCHOOL IS at the top of one list—as the most gay-friendly of the leading MBA schools. That's something, given its slide lately in the B-school ratings game. In 1994's BUSINESS WEEK poll, Harvard fell two places to No. 5, its lowest ranking ever.

The gay study, the first of its kind, ranks and grades the 22 best B-schools on eight criteria, such as: Do they have written nondiscrimination policies explicitly mentioning sexual orientation? The study is authored by Jason Lorber, an MBA stude at Stanford University, whi funded the six-month r search effort.

While Stanford and Harvard both get As, Harva ranks slightly ahead. Purdu Krannert School is the on top business school flunk. Reason: It lack among other things, d mestic-partner benefi for students and facul members. Dean Denn Weidenaar says th doesn't mean the scho is antigay: "We don't di criminate against an body." *John Byr*

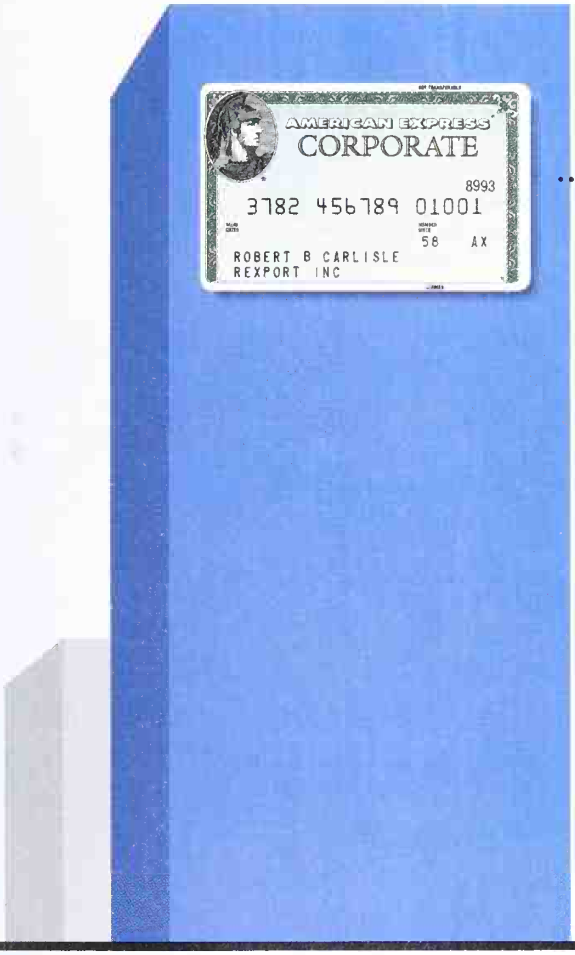
Gay-Friendly

RANK/SCHOOL	GRADE	RANK/SCHOOL	GRADE
1. HARVARD	A	18. DUKE	D
2. STANFORD	A	19. N. CAROLINA	D
3. YALE	A-	20. TEXAS	D
4. MICHIGAN	B+	21. USC	D
5. NYU	B+	22. PURDUE	F

FOOTNOTES Delinquent debtors who cited unemployment as their excuse for missing payments: 1992, 53%; 1994, 27%

CLOCKWISE FROM UPPER LEFT: PHOTOGRAPH BY BRUNO RATENSPERGER, CARTOON BY ED STEIN/ROCKY MOUNTAIN NEWS/NEA, GRAPHICS BY ALAN BASEDEN

The Choice.



**70%
of the Most Profitable
U.S. Companies rely
on The Corporate Card
Program from
American Express.**

The Reason.

Perhaps no companies are as money-wise as those deemed the year's Most Profitable. For 70% of them, The Corporate Card Program from American Express is the choice for managing T&E expenses. While some corporate cards focus on short-term "deals," we look for long-term ways to save companies money. We provide information that's *actionable* – to monitor spending and improve purchasing power. And throughout our partnership, we keep customers looking forward, identifying new opportunities to improve the T&E management process. After more than 20 years of experience, we offer the tools that companies can really profit from.

Source: 200 of the Most Profitable Large Companies in America as listed in *Hoover's Handbook of American Business 1995*. Percentage based on American Express information as of 1/1/95. ©1995 American Express Travel Related Services Company, Inc.

AMERICAN EXPRESS **Travel Management Services**

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MONASTERY OF ROUSSANOU, *Meteora, Greece*

EXCELLENT USE *of available land,* LTHOUGH PEDESTRIAN *access may* NOT BE UP TO CODE.

* * *

E GENIUS OF *a truly*
it building goes well beyond
elements which give it a spec-
ilar appearance.

A great building must also
eal itself to be a great environ-
it. This means comfortable
oor temperatures. Superior
iting. Proper humidity levels.
well, the ability to accommo-
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abit it.

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Readers Report

KIRK AND LEE'S CHRYSLER ADVENTURE

I would like to comment on "Target: Chrysler" (Cover Story, Apr. 24). Finally, your writers and editors have come to the realization, long understood in the auto industry, that Lee Iacocca has never had Chrysler Corp., its stockholders, or employees as his central interest.

The truth is that Iacocca was not the genius behind the Ford Mustang. His contribution to Ford was the Pinto and Maverick and an attempted coup against Henry Ford II that cost him his job there. At Chrysler, he marketed the company in the 1990s quite successfully, but he had, in the end, to be forced into retirement by the board. It was Robert Eaton and Robert Lutz who managed to turn Chrysler into a world-class auto producer with some of the most innovative products on the road in its lineup.

For the customers, suppliers, and employees of Chrysler, a successful endeavor by Kirk Kerkorian and Iacocca would be a disaster.

Geoffrey K. Wascher
Utica, Mich.

"A greedy grab for Chrysler" (Editorials, May 1) is right on. However, you ignore the central issue.

We have a public market for shares and, as such, investors are allowed to bid, and directors and shareholders are faced with decisions. As you point out, there is a lot of greed involved in this issue, but a free market is the most important issue, and it should be allowed to run its course. Damage is a possibility, but damage to the free-market system by short-cutting the process would be far greater.

John Burress
Winston-Salem, N. C.

WHAT'S A CEO WORTH —AND WHEN?

In your recent article "CEO pay: Ready for takeoff" (Special Report, Apr. 24), you offer two yardsticks for

CORRECTIONS & CLARIFICATION

In "Turmoil at Salomon" (Cover Story, May
one of the executives who left the Wall St
firm to join Long-Term Capital Managem
was misidentified. He is Myron S. Schol

In an Apr. 24 editorial, "Advice to Jap
Start importing more," BUSINESS WEEK in
rectly stated that foreign trade zones al
companies to import Japanese-made co
ponents tariff-free. In fact, car manufac
ers get a 50% reduction in duties on pa
imported into the zone, from 5% to 2.5

measuring the compensation of top
ecutives, one relating to how go
job the boss did for shareholders
the other to how well the boss dic
the company.

Many in the finance industry w
argue that the only meaningful wa
judge company performance is b
on the returns provided to sharehol
and that it is in fact dangerou
judge the performance of comp
based on traditional accounting m
ures such as return on equity. The
son this practice is dangerous is
accounting measures fail to consist
ly indicate the actual health and v
of companies.

At the end of the day, I am inv
ing in management's ability to gene
an appropriate return on my inv
ment, which can only be measured
cording to the shareholder returns
dividends and capital gains) that I
ceive. It is only appropriate, theref
that the executives should be paid
cording to how well they perform
me and for the other owners of
company.

Todd Luk
Alcar Gr
Wanchai, Hong K

How refreshing it was to read al
Cabletron Systems Inc.'s Presiden
Robert Levine and Chairman Craig
Benson, who take annual salarie
$52,000 a year. In light of the con

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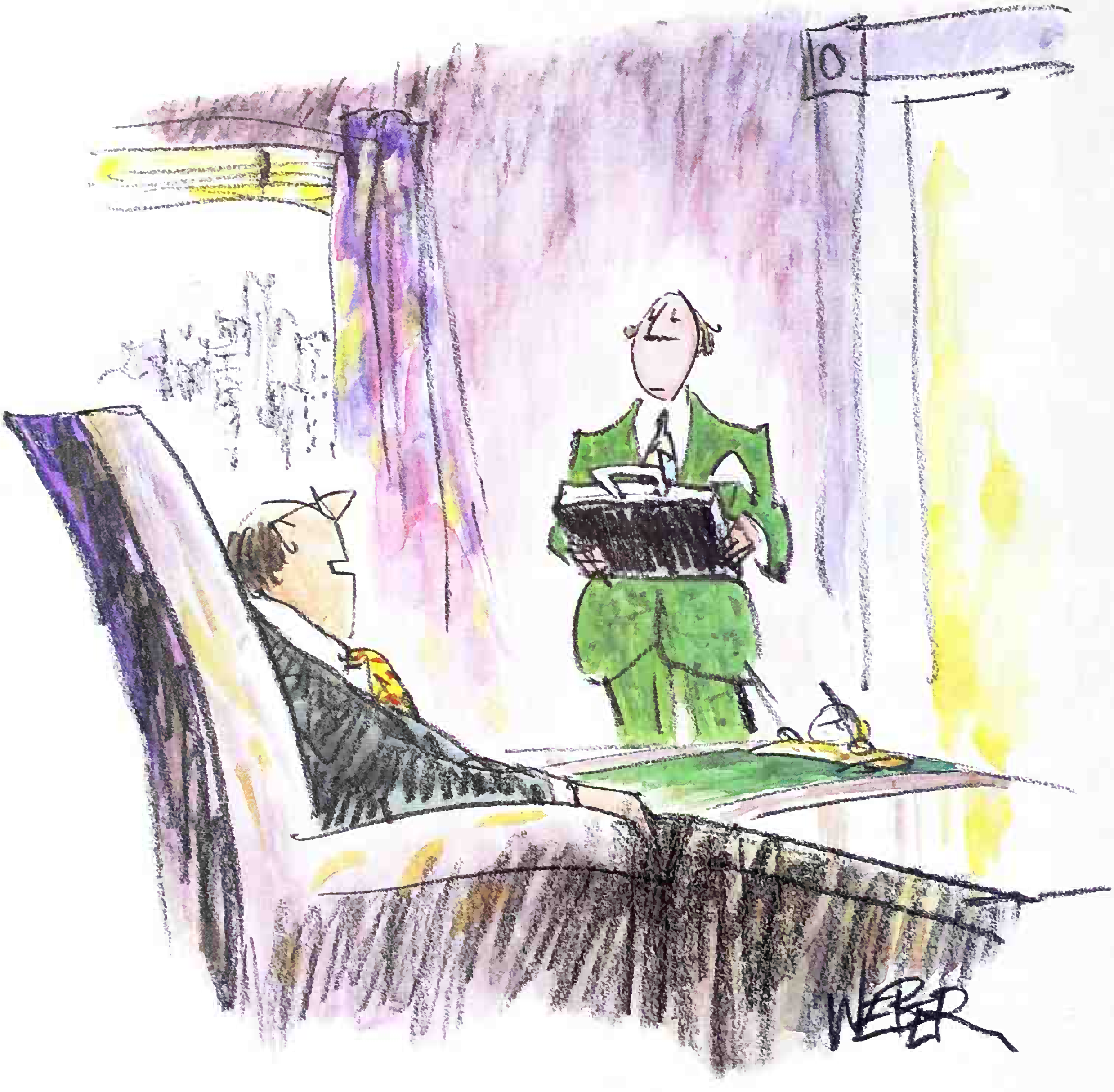

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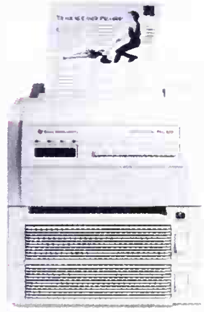

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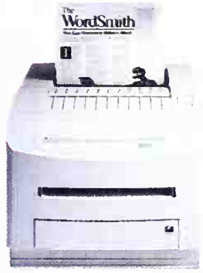

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ny's profits increasing 36%, to $810.7 million, these salaries are even more extraordinary. But here's the best part. Benson says: "Most of our compensation comes when we build the stock price up." What a unique concept. It boggles the mind to wonder what would happen if all major companies based their executive compensation on this simple proposition.

Gary W. Priester
Black Point, Calif.

Are you serious about the story of Cabletron executives bucking the high executive pay trend? They may only be paid $52,000, but how many people own $927 million worth of stock? Their disgust with out-of-control executive pay is at the very least hypocritical. The two are seen as valiant do-gooders for taking so little pay, yet Mr. Levine has the ability to write a $70,000 personal check. On closer examination, their low pay has less to do with some noble cause and is more likely linked to their huge bank balances accumulated from the sale of $500 million worth of stock.

Edward O'Doherty
Norwalk, Conn.

A SPECIAL ISSUE INDEED

BusinessWeek
How nations and industries will compete in the emerging global economy
21st CENTURY CAPITALISM

The most gratifying accolades come from one's peers. So we are very pleased that our special issue, "21st Century Capitalism," won the award for "Best Magazine Reporting from Abroad" from the Overseas Press Club this year. Under the direction of editors Robert J. Dowling, Frank J. Comes, and Christopher Power, some 80 correspondents, editors, designers, and photo editors devoted six months to this project.

We are also proud to have had three finalist entries in the prestigious Gerald Loeb Awards for Distinguished Business and Financial Journalism.

OFF WELFARE —AND THEN?

One cannot help but notice that all of BUSINESS WEEK's columnists have two things in common. No, make that three: They're white, they're male, and they're not on welfare. These demographics coincidentally apply to those who govern this nation. So it's no wonder Gary S. Becker, who has doubtless never missed a meal in his life, suggests, in "The best reason to get people off the dole" (Economic Viewpoint, May 1), that the best way
to make this country's poor self-reli
and get them off the dole is to shor
the time they can receive welfare.

Becker's solution is incredibly sim
Or is it simplistic? Like solving the d
problem by just saying no. Or solv
the homeless problem by legislat
them off the streets.

This may come as a surprise, but
poor don't aspire to be poor. They d
think supporting a family on welfar
akin to spending weekends in the Ha
tons. They don't find comfort in be
the scourge of white society. Beck
logic would appear to be: Ignore th

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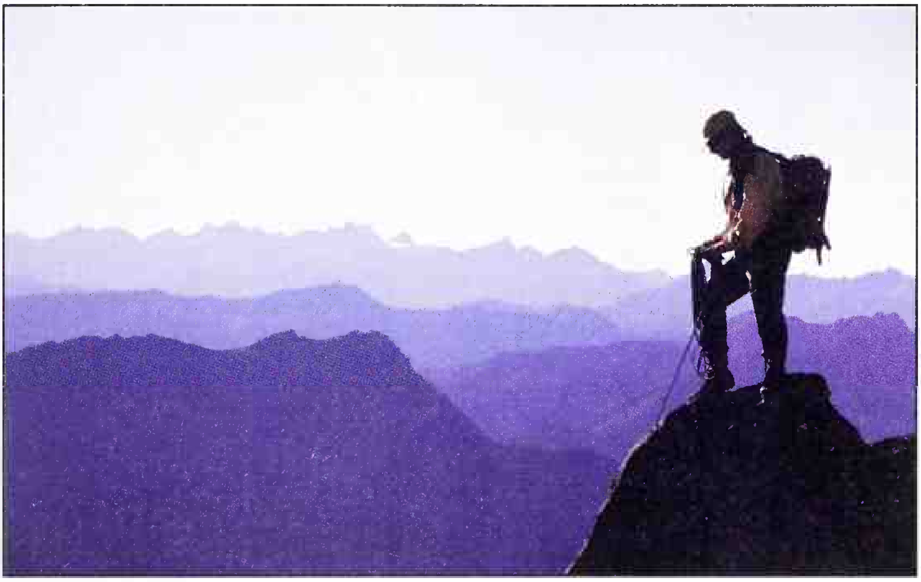

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cut off their welfare, and they'll go away.

The jobs Becker would have them take (by cutting off their "assistance") don't exist (not in this country at any rate), and if they do, the poor lack the education and skills necessary to qualify. The poor are caught in the middle of a lose-lose situation.

Gary W. Priester
Black Point, Calif.

WHY SOCIAL SECURITY IS SO INSECURE

In "Social Security: Apocalypse soon—or sooner" (Economics, May 1), Paul Magnusson correctly notes that the projected date for the insolvency of Social Security may be as soon as 1997 because of slow growth in real wages. Yet the fundamental reason for the abatement of growth in real wages seems to elude him—namely, the burgeoning costs associated with ever-expanding employment-related legislation and regulation. The very real benefits associated with OSHA, ERISA, ADA, the Medical & Family Leave Act, and dozens of other laws come at a cost to U.S. workers and retirees. In essence, productivity-based increases in real wages have already been absorbed ("invested") in regulatory compliance. Public policy analysts, economists, and, ultimately, voters will need to address these trade-offs.

Richard E. Kopelman
Professor of Management
and Academic Co-Director
Baruch Executive MSILR Program
New York

MAYBE THE EEOC ISN'T EQUAL TO THE TASK

Your article "The EEOC: Too swamped to shoot straight" (Social Issues, May 1) implies that the only problem with the Equal Employment Opportunity Commission is a lack of money. The same implication is also often used in reference to other federal agencies.

Assuming that your chart at the bottom of the page is reasonably accurate, the indication is that there are far too few investigators to handle the caseload at EEOC. However, if you assume that each investigator would cost $100,000 (including fringes and appropriate clerical support), the total for the 732 investigators amounts to only $73.2 million out of a $230 million budget. It is unimaginable to me that the major activity of an organization should only amount 32% of its expenditures. No efficient c ganization could live with this.

The problem with many governme agencies is not a lack of money but lack of organization and efficiency.

Edward T. Per
Midlothian, V

HOW TO REACH BUSINESS WEEK

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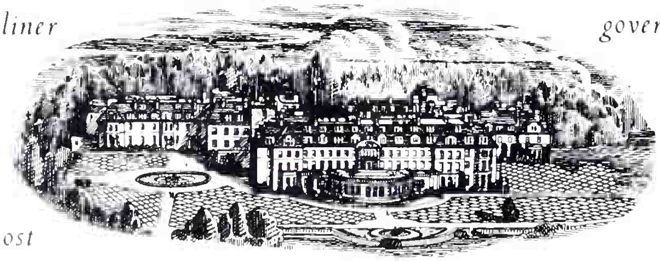

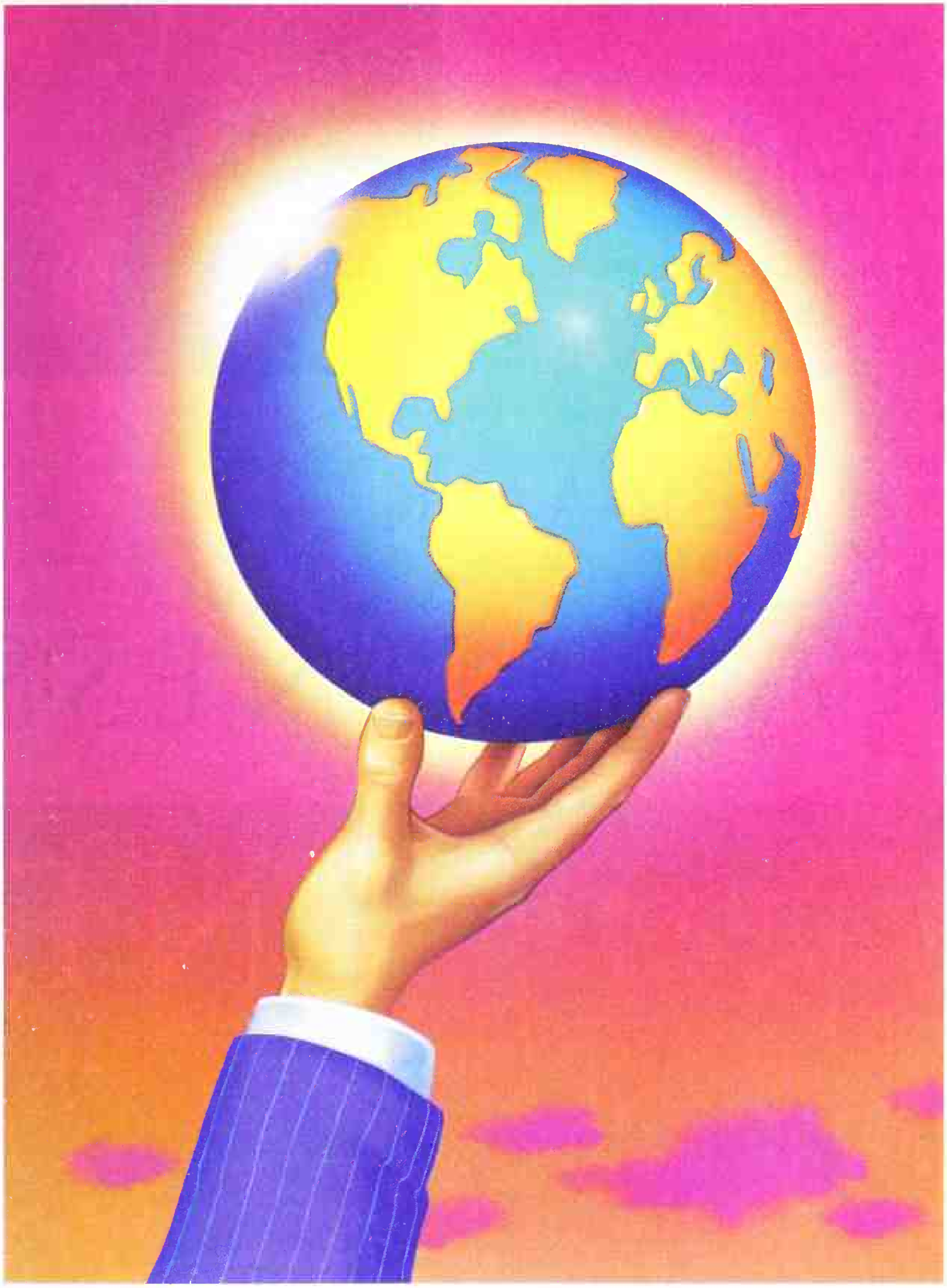

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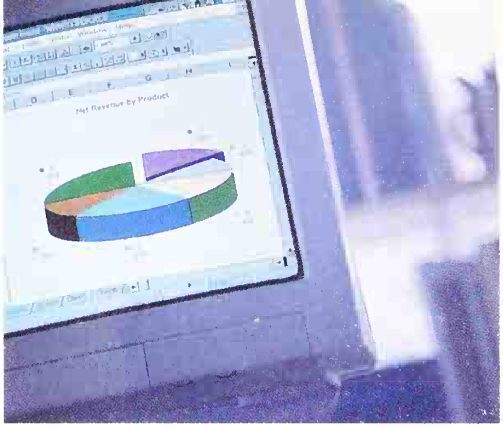
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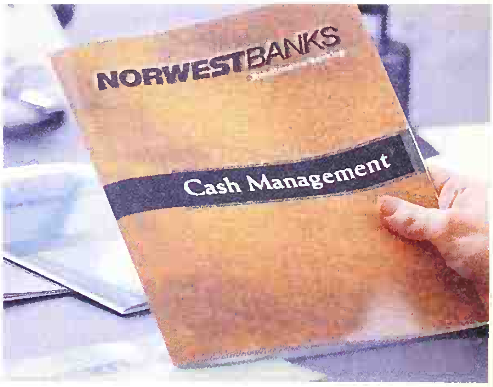

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EXCELLENT CADAVERS
The Mafia and the Death of the First Italian Republic
By Alexander Stille
Pantheon • 467pp • $27.50

THE ITALIAN MAFIA: WOUNDED, STILL DEADLY

Journalists in Italy sooner or later run into the Mafia. For me, it happened in late 1991, when one Libero Grassi, owner of a small business in the Sicilian capital of Palermo, published an open letter denouncing the Mafia clan that was extorting money from him. Such payments of protection money—called the *pizzo*—total billions of dollars a year. A few days after the letter appeared in Palermo's main newspaper, Grassi was gunned down on the sidewalk. I traveled to Sicily to find out more and spent a sad afternoon with the slain man's son, Davide, who said he held out little hope for justice since only 2 out of every 10 homicides in Sicily result in a conviction. I asked when he thought things would change in Sicily. "Maybe in 20 years," said Davide. "If we're lucky."

In fact, as Alexander Stille writes in *Excellent Cadavers: The Mafia and the Death of the First Italian Republic*, his masterful study of the Sicilian Mafia and its stranglehold on Italy, Grassi's violent death was one of the events that helped galvanize the struggle against the Mafia. Less than two weeks after Grassi's murder, the Italian government approved desperately needed anticrime measures, from the creation of an Italian version of the FBI to tough, new antiracketeering laws. *Omerta*, the fearsome Mafia code of silence, was broken as dozens of witnesses came forward to testify. In that tormented summer of 1992, the tide began to turn against the Mafia. Over the next two years, arrests in Southern Italy increased by almost 50%, while the murder rate in the entire country declined by a stunning 42%.

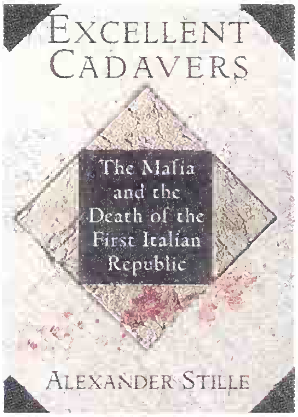
It was no coincidence that the old regime that had governed Italy since World War II—providing the petri dish in which the Mafia virus could grow so wildly—was also collapsing. Popular disgust with the corruption and inefficiency of the Christian Democrat-dominated political system helped the Clean Hands political-corruption investigation take off after the initial arrest—that of a small-time politician—in Milan in early 1992. Within months, the game was up for "a political class that accepted a culture of illegality and knowingly used the Mafia's strength in Southern Italy for its own political advantage," as Stille writes.

Stille, a young journalist who won a *Los Angeles Times* Book Award for his 1992 study of Italian Jewish families under fascism, here delivers a stiletto-sharp portrait of the bloodthirsty Sicilian Mafia. American wiseguys seem positively pacifist compared with such Sicilian cousins as Pino "the Shoe" Greco, a sadistic hit man thought to have killed at least 80 people before a rival rubbed him out. Then there's Palermo boss Filippo Marchese, who personally strangled his victims in a stifling, central-city apartment known locally as the "room of death." Meanwhile, the political Establishment looked the other way.

Not everyone else did, though. Italy's two most prominent anti-Mafia investigators, Giovanni Falcone and Paolo Borsellino, both from solid professional Sicilian families, represented the best of an honest, hardworking, and patriotic southern Italian culture that neither the Mafia nor corruption has yet annihilated.

These and other investigators fought an uphill battle against the Mafia—whose regular murders of law-enforcement officials resulted in the *cadaveri eccelenti*, or prominent corpses, referred to in the book's title. They also had to contend with Italy's political barons and their lackeys. A top Supreme Court
judge, Corrado Carnevale—known
l'ammazza-sentenze, or "the senter
killer"—regularly and blatantly ov
turned the many convictions that B
sellino and Falcone obtained agai
Mafia dons. And how could an effect
fight be waged against organized cr
if, as is now alleged, Antonio Gava,
powerful onetime Interior Minister
charge of the police and secret servi
was closely linked to the most powe
bosses of the Camorra, the Neopoli
crime organization? At the apex of t
murky juncture where politics me
criminality was Giulio Andreotti,
six-time Prime Minister who had b
Italy's main political kingmaker fi
1946 until 1992.

Falcone, his wife, and three bo
guards were killed by a massive bo
in May, 1992. Two months later, B
sellino and five policemen were blo
apart by a car bomb. But the specta
lar killings revealed the Mafia to
wounded, enraged, a
very much on the def
sive—a stance that wo
continue over the n
two years. However, S
worries that the "gol
period" between 1992
1994, when it looked a
the state was winning
war against the Ma
may have ended.



Some recent eve
seem to support this vi
The political ascendar
of media-tycoon-turn
politician Silvio Berlus
has put crusaders on the defensive. B
lusconi, himself the subject of seve
continuing anticorruption probes, mo
to tame prosecutors after becom
Prime Minister in 1994. While it may
difficult for the Mafia to ever regain
its vast powers, there are indicatio
that it is clawing its way back. Ma
murders are once more on the upsw
in the south. In mid-April, one of
government's key Mafia witnesses, Fr
cesco Marino Mannoia, announced t
he would not continue to cooperate. T
government, says Mannoia, is no long
serious about fighting the Mafia. Tha
surely a bad sign.

JOHN ROSSA

*Rome Bureau Manager Rossant h
closely followed the fight against
Mafia.*

A SUPREME COURT JUDGE, AN INTERIOR MINISTEF
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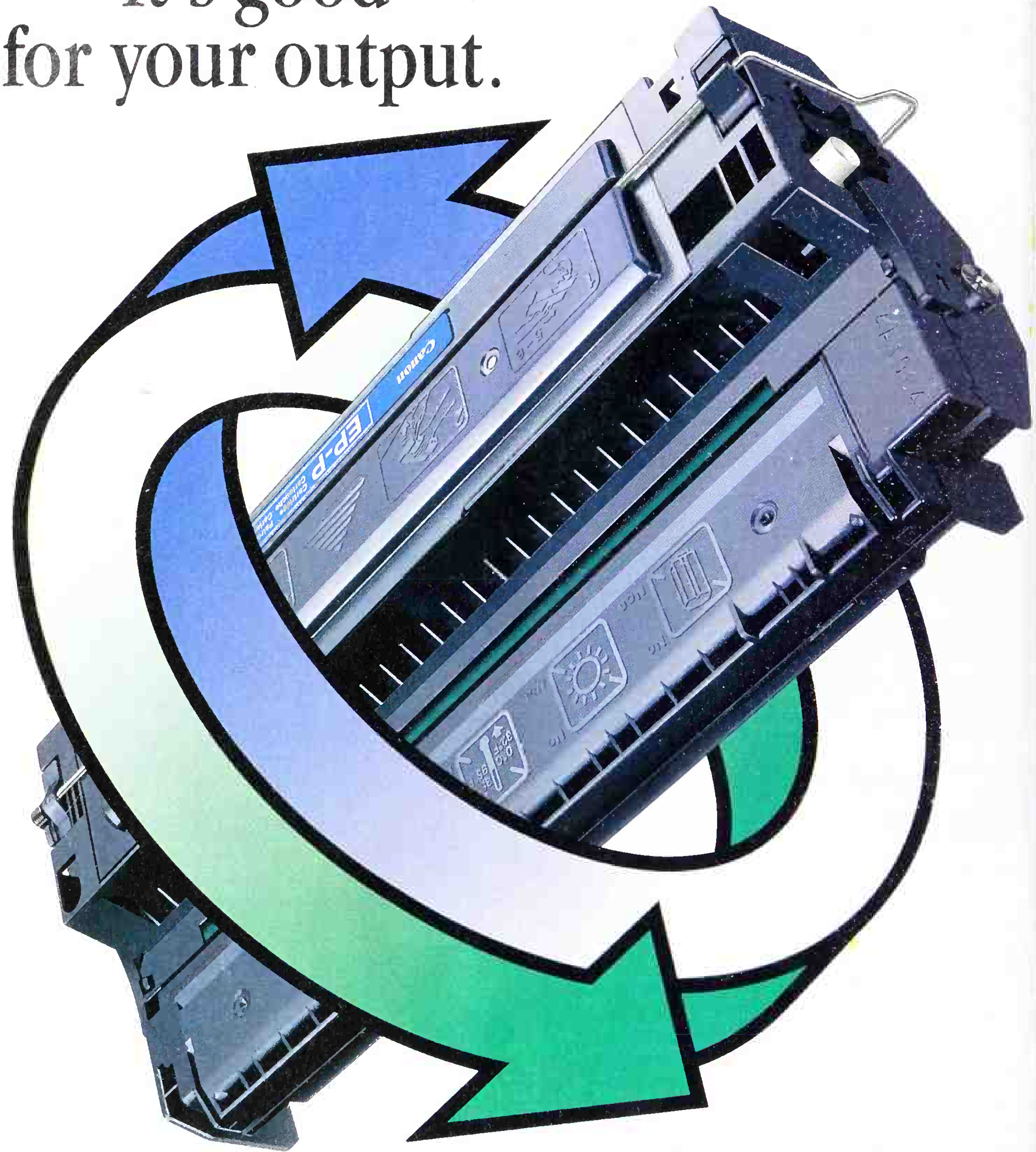

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BY STEPHEN H. WILDSTROM

CHEAP AND EASY STORAGE SPACE

My home and office computers both have 540-megabyte hard drives, an unimaginable size just a few years ago. Compression software allows me to squeeze a billion bytes on each. Still, I am critically short of storage space—without giving any room to disk-gobbling multimedia games. Even with gigabyte hard drives costing less than $500, the proliferation of huge programs, pictures, sounds, and video clips emphasizes the first law of computing: You can never have enough disk space.

The way to deal with this iron law is to move some of those megafiles onto removable disks. Traditionally, removable mass storage has been too slow or too expensive to be practical for most users. But at long last, inexpensive removable storage devices allow you to move less-used files off your hard drive and still have them handy for use in seconds.

FILE HAULER. While slower than conventional hard drives, removable disks are many times faster than floppies or even CD-ROMs and are speedy enough to store and run programs. They are also handy for backing up data in case your hard disk crashes and for transferring large files between your desktop and laptop.

The Zip drive from Iomega Corp. (800 697-8833) is the first of this breed. The external drive, with a street price of just under $200, comes in an attractive dark blue plastic case about the size of a typical modem. The hard-shell disks are four inches square and a quarter-inch thick, a bit bigger than a 3½-inch floppy. The 100 MB disks retail for under $20, and a 10-disk "giga-pack" is available for as little as $149. The Zip drive includes some nice design touches, including rubber feet that let you set it up horizontally or vertically and a window that allows you to read the label of a disk in the drive.

zip
zip
zip
100

The Zip comes in two flavors. One version connects to a PC through its parallel printer port. The other version can be used with all Macintoshes or any PC equipped with a SCSI (pronounced "scuzzy") interface. If you don't already have the SCSI interface (call the place where you bought your computer if you're not sure), Iomega offers a $50 interface card. I found the card much easier to install than most. Generally, SCSI is the way to go. The connection is more reliable and moves data more than twice as quickly. Both versions come with some useful software, especially a cataloging utility that keeps track of which files you've put on what disk.

COMPETITION COMING. What's more, you're about to get a second choice, the EZ135 Drive from SyQuest Technology Inc. (800 245-2278). The EZ135, whose $200 drive and $20 disks match the Zip in price, will store an extra 35 MB on each disk. Unfortunately, the rival drives use different technology and incompatible disks, and each company claims that its product is better than the other. While the EZ135 is not yet available for testing, my experience with an older, more expensive SyQuest 270 suggests that the EZ135 may be faster than the Zip, but probably not enough to matter to most users. It also comes in two versions. An internal unit that fits in a floppy drive bay on the front of your PC will be available in early June, while a Mac/PC external SCSI version will arrive in late summer. By yearend, a third contender, being developed by Compaq, 3M, and Matsushita, may also hit the streets.

You'll find a Zip or EZ drive good for more than adding storage space. The drive makes it much easier to create and use backup copies of your critical files in case your computer crashes. The new disks can also be handy for transferring from one computer to another any files too big to fit on a 1.44 MB floppy.

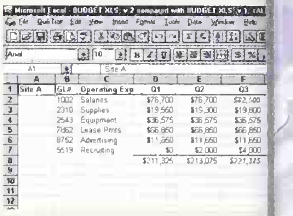
No matter how big internal disk drives get, it seems that software will always grow at an even faster rate. Removable drives finally help you keep pace.

BULLETIN BOARD

SOFTWARE

WHODUNIT HELP

Nearly every business that uses computers finds spreadsheets invaluable. But there' inevitably consternation if more than one person is worl ing on the same file. The puzzle is tracking multiple versions of a file and figuring ou


Microsoft Excel - BUDGET.XLS; v 2 compared with BUDGET.XLS; v 1: <Al
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	A	B	C	D	E	F
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2		1002	Salaries	$76,700	$76,700	$82,500
3		2310	Supplies	$19,560	$19,300	$19,800
4		2543	Equipment	$36,575	$36,575	$36,575
5		7862	Lease Pmts	$66,850	$66,850	$66,850
6		8752	Advertising	$11,650	$11,650	$11,650
7		5619	Recruiting	$0	$2,000	$4,000
8				$211,325	$213,075	$221,375
9						
10						
11						
12						

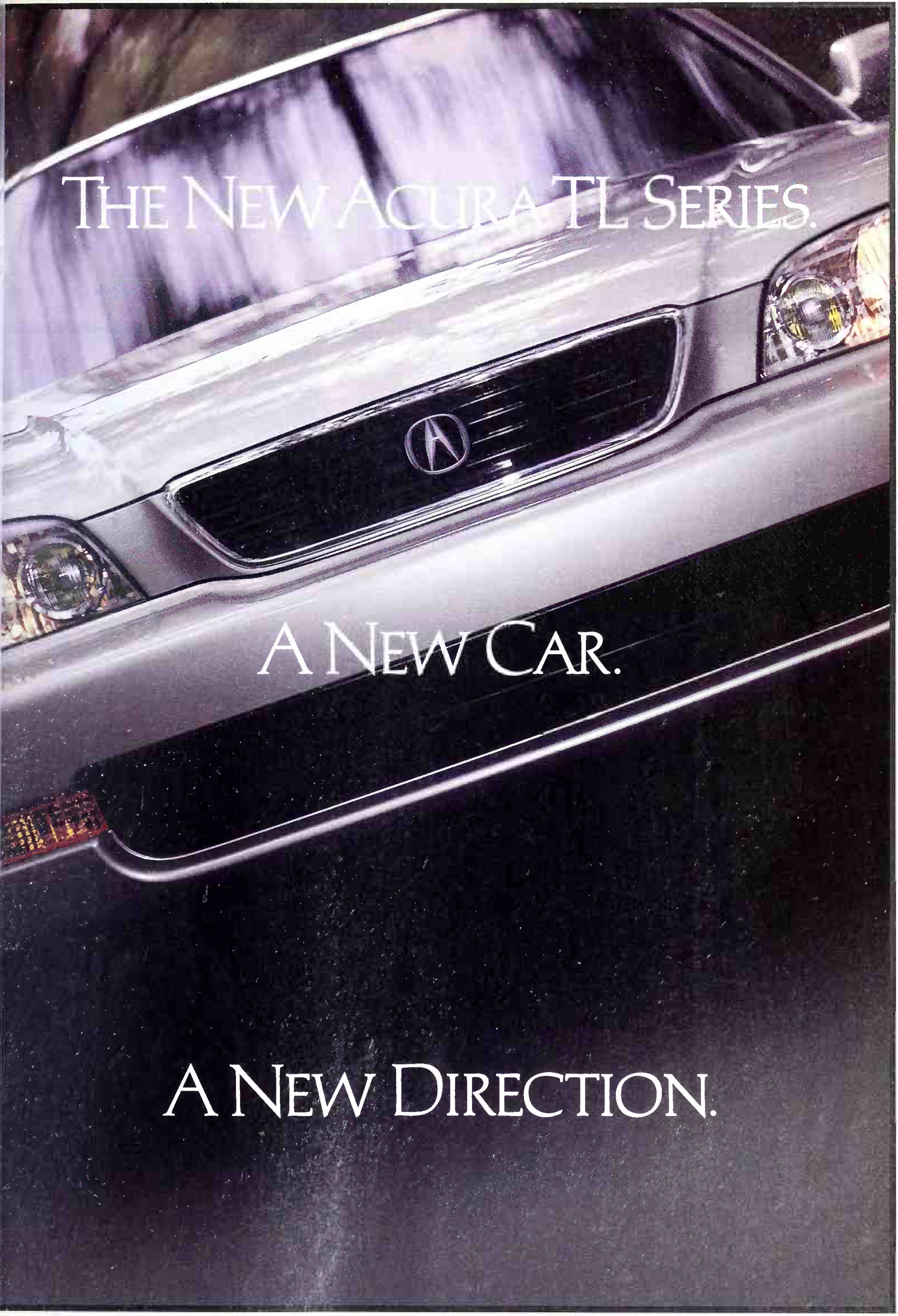
who changed what, when—and why. Users of Microsoft Excel 5.0 for Windows can now get some help from QuikTrak (Softool Corp., 805 683-5777). The $99 Excel add-in makes it easy to save multiple versions of a spreadsheet It also maintains a log that tracks who made changes, along with an explanation of the reasons for an update. With a couple of mouse clicks you can compare any two versions of a file. Altered cells are instantly highlighted on the screen (above, in red).

PRINTERS

CORDLESS CONNECTION

The Hewlett-Packard LaserJet 5P printer I liked so much (Apr. 10) is no longer so distinctive in its ability to accept commands via laser from you laptop. The $135 JetEye from Extended Systems (800 235-7576) plugs into the parallel port of any printer and allows you to print files from about three feet away. A special connector lets you keep your desktop computer hooked up to th same port. Some models of HP Omnibooks and IBM Thinkpads are among the laptops that could use the laser feature.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125



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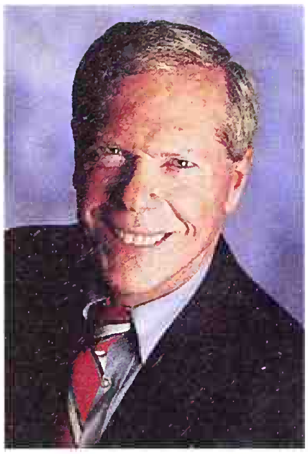
SOME THINGS ARE WORTH THE PRICE

ACURA

Economic Viewpoint

BY PAUL CRAIG ROBERTS

IS THE FED SURRENDERING TO BIG BROTHER?



INTRUSIVE: By bowing to pressures for race and gender data in lending, the Fed gives regulators a chance to micromanage the process

On Apr. 19, the Federal Reserve Board yielded to Clinton Administration pressure for racial quotas in bank lending. Despite fears expressed at that day's board meeting about the Community Reinvestment Act's "potential for regulatory-driven credit allocation," the Fed agreed to changes that will permit the CRA to be used as a mechanism for racially allocating credit.

The regulatory changes, which Governor Lawrence B. Lindsey shepherded through the Federal Reserve Board, are the outcome of 21 months of negotiations involving the Fed, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Deposit Insurance Corp. One change repeals a color-blind regulation dating from 1976 that forbids banks collect data on race, color, gender, or national origin from its loan applicants. Another new regulation requires banks to report their loans by census tract, a proxy for racial reporting.

In his presentation to the board, Governor Lindsey acknowledged that these changes will give federal regulators "the capacity to micromanage bank decision-making to an unprecedented degree." Nevertheless, Lindsey marshaled hope that regulators will "use balance and reasoned judgment" and "avoid this micromanagement." Otherwise, he warned, regulators will "undermine the functioning of the market and therefore the underpinnings of capitalism" with racially allocated credit. "As believers in democratic capitalism," Lindsey said, "we are therefore extremely perturbed about race-conscious and gender-conscious practices."

"CONTENTIOUS." With so many reservations about the potentially dire consequences of the regulatory changes, it's natural to ask why the Fed acquiesced. Governor Lindsey answers that it is no longer politic for the Fed to hold out for color-blind safeguards. "This board's position that the use of such irrelevant characteristics as race, gender, religion, and national origin has no place in decisions regarding the provision of credit" is "not as widely accepted as it once was" and has become "contentious." To avoid "the extreme requirements sought by some special interests" that would result in a harmful "extreme policy activism," Lindsey reported to his colleagues that he had struck the best
compromise he could get. Americans, Lin
sey said, "have long since lost the figh
against Big Brother."

Perhaps hoping to constrain expansiv
interpretations, Lindsey emphasized that th
requirement that loans be reported by cer
sus tract does not mean that loans have t
be made in each tract. "The law," he says
"does not require that a bank serve ever
community or meet every perceived need,
and CRA regs are not supposed to "adverse
ly impact the profitability" of the banks.

Governor Lindsey is whistling in the dar
I have reported in this space (Jan. 24 an
Oct. 3, 1994) instances of banks being force
into allocating credit by race prior to th
new rules. Resolution Trust Corp. economis
Vern McKinley found CRA regulations to b
"blatant credit allocation" prior to the lates
regs that make this result more likely, an
the Justice Dept. has an established patter
of misusing the CRA to force banks to lo
cate branches in minority census tracts an
to issue below-market loans.

LOOKING FOR COVER. In his Apr. 19 surren
der speech, Lindsey urged his Federal Re
serve colleagues to be "eternally vigilant
in resisting racial lending quotas. In Wash
ington, such exhortations are useful for cov
ering one's behind, but they are ineffectiv
against "the natural tendency of the bureau
cratic rule-making process."

The Fed could have stood on principle an
empirical evidence. Nobel prize-winners Gar
S. Becker and Kenneth J. Arrow have note
that evidence of discrimination would be low
er mortgage default rates among protecte
minorities, a sign that they were being hel
to higher standards. Last November, a stud
was released by Federal Reserve economist
Glenn B. Canner and Timothy H. Hannan
Freddie Mac economist James A. Berkove
and University of Southern California econo
mist Stuart Gabriel that examined 220,00
Federal Housing Administration mortgag
loans and found no evidence of discriminatio
against minorities. The study reports tha
blacks default at twice the rate of white
and "exhibit significantly higher default rate
in both urban and suburban locations."

By compromising on principle, the Fe
has opened the floodgates for regulators t
inappropriately second-guess and micro
manage the lending process in the name o
civil rights.

Paul Craig Roberts is John M. Olin Fellow of the Institute for Political Economy and Distinguished Fellow of the Cato Institute in Washington, D.C.

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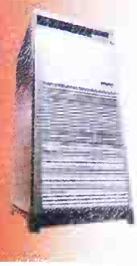

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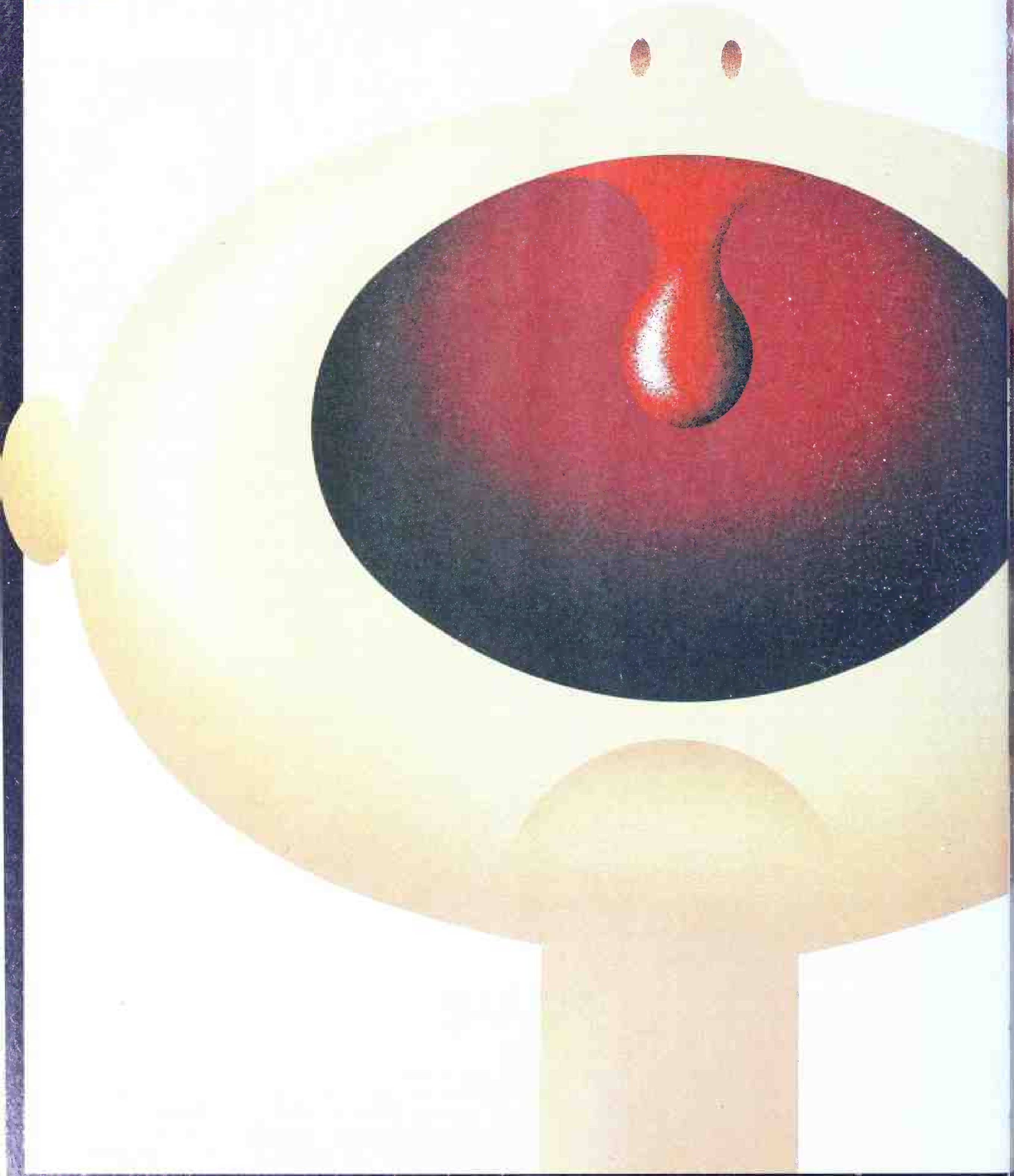
Max Memory	14GB	2GB	5GB
Memory Bandwidth	1600MB/s	500MB/s	800MB/s
I/O Bandwidth	1200MB/s	256MB/s	620MB/s
I/O Slots	144 PCI	112 HPPB	40 Sbus



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BY GENE KORETZ

ARE AMERICANS OVERWORKED?

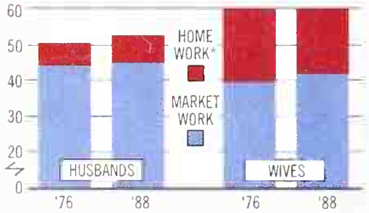
Not if you count less work at home

A popular view is that a baleful trend afflicts American workers: Whereas many European workers have been curtailing their workweeks, their U.S. counterparts have often been forced to work longer hours just to maintain their living standards. In other words, Americans are working more and enjoying life and leisure less.

Not so, claim Kristin Roberts and Peter Rupert of the Federal Reserve Bank of Cleveland. Their analysis of survey data of American families from 1976 through 1988 confirms that the average American is indeed spending more time working for pay than in the past. But once they add "home work" to the equation—that is, such activities as cooking meals, laundry, home maintenance, and child care—they find that most of the increase simply reflects a shift from time spent in home production to time spent in paid market work.

SURPRISING STABILITY IN TOTAL HOURS AT WORK

MARRIED COUPLES WORKING FULL TIME



▲ AVERAGE HOURS PER WEEK *HOUSEHOLD CHORES

DATA: FEDERAL RESERVE BANK OF CLEVELAND

Market-work hours of married couples in which both partners work for pay full time, for example, rose by three hours a week from 1976 to 1988 (chart). But home-work hours fell by three hours, so total weekly work hours for such couples remained about 109.5. In households with nonworking wives, total work hours also stayed relatively stable, at about 82.5 a week over the period.

The difference between total work hours of working couples and those of couples with nonworking wives, of course, reflects the fact that women in male-worker couples are occupied only with household work. In 1988, such wives spent an average 32.2 hours a week doing home work, double the time working wives spent at such chores. But the latter also spent an average 41.4 hours in market jobs.

Roberts and Rupert conclude that rather than forgoing leisure hours, Americans are mainly substituting market work for home work—a trend fostered by smaller families, labor-saving appliances, and other developments.

BUY GOLD WHEN INFLATION IS LOW

It could pay off, says an expert

If you think gold is a good investment only in periods of soaring prices, think again. According to Marc M. Groz of Quaternion Group Inc., a financial consultant that uses mathematical models of markets, gold is also a sound investment in a low-inflation environment.

Groz bases his view on a study that analyzed the performance of gold in periods of high (more than 6%), medium (3.5% to 6%), and low (less than 3.5%) inflation over the past 25 years. Perhaps predictably, he found that gold provided an average return of 22% in years of high inflation but also exhibited high volatility, plunging as much as 20% in some years. In years of medium inflation, on the other hand, its average return was actually slightly negative.

The big surprise was gold's performance in years with inflation below 3.5%. It not only posted a respectable average return of 11.1% but did so with much less volatility and downside risk. The moral of the story, says Groz: "Gold can not only act as an inflation hedge in periods of high inflation but also can provide high real rates of return with relatively low risk when inflation is low."

CLUES TO A SAVINGS RIDDLE

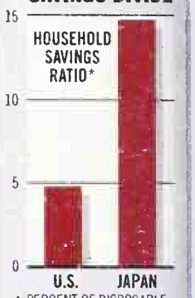
Why U.S. and Japanese rates differ

Americans are poor savers, while the Japanese save a lot. According to economist Albert Ando of the University of Pennsylvania, one reason for the difference may be diverse reactions to the high prices of key commodities.

Ando notes, for example, that the decline in the U.S. savings rate over recent decades has closely paralleled the upward trend of medical outlays as a percent of national income. This spending boom has occurred despite skyrocketing medical inflation, which would nc mally curtail demand, in part becau many Americans consider medical care necessity at almost any price.

By contrast, whereas a nation health system has kept Japanese mec cal outlays relatively low, the cost housing in Japan is extraordinarily high. This has induced the Japanese to consume very little housing in real terms.

THE U.S.-JAPANESE SAVINGS DIVIDE



▲ PERCENT OF DISPOSABLE INCOME

*1986-1993 AVERAGE

DATA: OECD

Thus, in each case, says Ando, the high cost of a key consumption item has affected household saving—reducing saving in the U.S., where high medical costs are no deterrent to spending, and enhancir saving in Japan, where high housir costs restrain housing outlays.

This issue bears upon current U. efforts to cut business and governme health outlays by passing more of tl tab directly to the public. While busine has cut its spending, in part by requirir higher copayments from workers, tl public's out-of-pocket health-care outla as a share of consumption have rise sharply, from 5.7% in 1988-1989 to 6.9 in 1993. If the trend continues, it cou dampen future U.S. household saving

A DISPUTE OVER JOB CREATION

Small business sees no letup

The April decline in U.S. payroll er ployment has reinforced the vie that a "soft landing" is here and eve raised some recessionary fears. Econ mist William C. Dunkelberg of the N tional Federation of Independent Bus ness is skeptical, however.

Noting that the Labor Dept.'s "pl factor" to reflect hiring at busine startups was reduced by some 22,0 jobs in April, Dunkelberg argues th the agency is missing the boat on j creation: Rather than losing steam, er ployment gains at small businesses a actually gathering strength. He poin out that hiring plans by members the NFIB in April were running close their highest level in 21 years. Thu he expects "some major upward rev sions in the employment numbers."

WHAT'S MIRIAM BERGMANN'S SECRET TO CULTIVATING AWARD-WINNING RIGOLETTO DAHLIAS?

(IT AIN'T THE WATER.)

"Sure, they need the moisture, but the little darlings really perk up to the classics," said Miriam.

It occurred to her at the San Jose Center for Performing Arts. She made the intuitive leap during a particularly stirring passage of Stravinski's Rites of Spring. Miriam, and her dahlias, can be a lesson to us all: a community endowed with a healthy portion of the Arts enriches the lives of all who live there.

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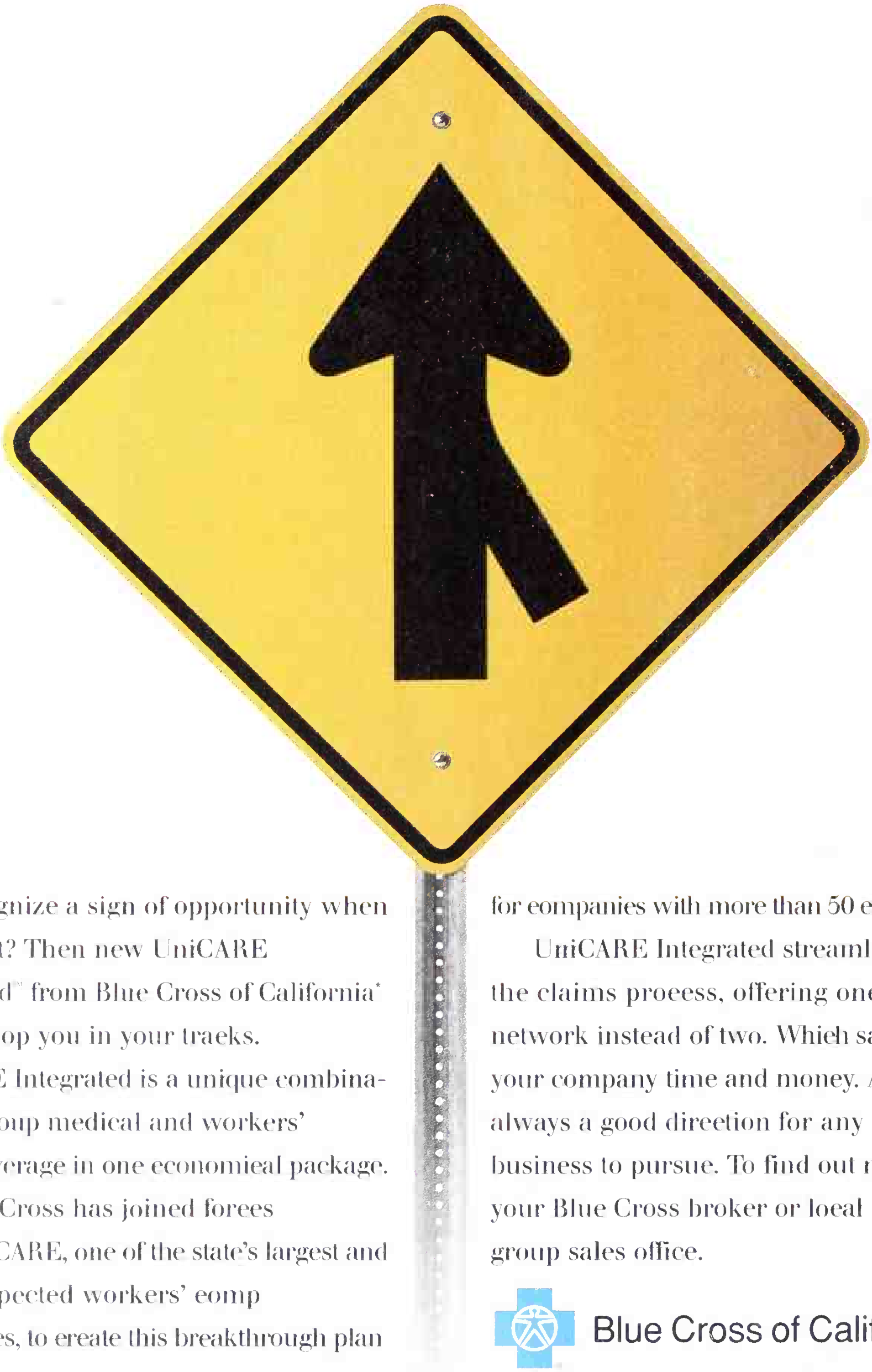

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Blue Cross of California

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JAMES C. COOPER & KATHLEEN MADIGAN

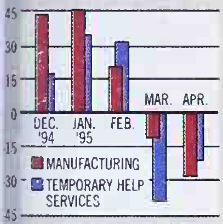
AKE A DEEP BREATH, RELAX, ND FORGET THE 'R' WORD

U.S. ECONOMY As the old saying goes, be careful what you wish for. You ant a soft landing? It might just be on your doorstep. ut as the data now clearly show, a soft landing means ft sales and hiring, and people are starting to get ervous.

A few economists are even using the "R" word, but ecession worries right now are way out of place. The onomy is in the middle of what is likely to be a ort and sharp inventory correction brought about the impact of the Federal Reserve's interest-rate kes on housing and consumer spending. A similar rrection resulted in a slowdown in 1986, after which e expansion went on its merry way.

As businesses wrestle their inventories into better shape relative to sales this spring and summer, industrial production will remain on the weak side and employment gains will continue to slow. But after the slowdown, the economy is more likely to pick up again than it is to spiral downward toward recession—although it will not regain its 1994 pizzazz.

TWO AREAS THAT ARE LOSING JOBS



▲THOUSANDS, MONTHLY CHANGE

DATA: LABOR DEPT., BUSINESS WEEK

Growth has plenty of supports to prevent a recession. or one: Falling long-term interest rates will buoy ousing. The yield on the benchmark 30-year Treasry bond crashed through 7% on May 9 to close at .93%, the lowest in 14 months (page 41). Of broader imortance, refinancing activity is already showing some arly signs of activity, says the Mortgage Bankers Assn.

Also, business outlays for high-tech equipment and onstruction are strong and likely to remain so. And the rag on U.S. exports resulting from Mexico's recession vill have run its course by the second half, when forign demand elsewhere and the cheaper dollar willregnite export growth.

IKE THE 1986 SLOWDOWN, the 1995 episode might vell have a bonus: It could extend the expansion. Slowr growth will keep pressure off wages and prices as it ases constraints on capacity and as it unwinds some of he recent tightness in the labor markets—already evdent in the April job report (chart).

At first blush, those job numbers looked pretty omiious. The unemployment rate jumped to 5.8%, up from .5% in March, and payrolls actually shrank by 9,000, he first decline in more than two years.

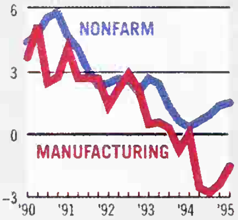
To be sure, job growth is slowing, but the Labor Dept. pointed to "an unusual set of circumstances" that exaggerated the April weakness in payrolls. Because of seasonal quirks, the poor showing was in effect a payback for questionably large job gains in February and March. Also, the April dip included 32,000 striking supermarket workers in California.

Still, signs of slower growth were evident. The 48.7% of industries adding workers in April was the lowest in 2½ years. Big job losers in the month were manufacturing, down 28,000, and construction, off 20,000. Temporary-employment services shed 21,000 temps, typically the first to go as business wanes.

The factory workweek fell a steep 36 minutes, to 41.3 hours. A shorter workweek usually precedes cutbacks in output and hiring. The drop in manufacturing hours suggests a second consecutive decline in industrial production in April.

So far this year, job gains have averaged 173,000 per month, down from nearly 300,000 during the second half of last year. Given the recent uptrend in initial jobless claims, job growth for the rest of the year seems likely to maintain a slower pace. Hiring will be sufficient to generate income for consumers, but the jobless rate may drift up a bit.

UNIT LABOR COSTS: STILL UNDER CONTROL



▲PERCENT CHANGE FROM A YEAR AGO

DATA: LABOR DEPT., BUSINESS WEEK

ONE KEY ARGUMENT for recession is that the Federal Reserve has already raised—or is about to raise—interest rates too much and thus drain the monetary blood from this expansion. Overtightening has always contributed much to past recessions.

However, the Fed's actions of the past 16 months were preemptive strikes against inflation. And the latest data on productivity and unit labor costs show that price pressures are almost nil (chart). In fact, the slowdown in unit costs actually strengthens the case that the Fed's next move could be one of easing.

Productivity in the nonfarm business sector grew at an annual rate of 0.7% in the first quarter, on top of a revised 4% advance in the fourth. In manufacturing alone, output per hour worked jumped 3.6%. Over the past year, factory productivity has risen a steep 4%.

Growth in productivity in coming quarters will not look as strong. The cyclical forces that pushed up efficiency early in this expansion have pretty much run

ERIC HOFFMANN/BW

their course. But companies will remain committed to increasing efficiency, because rising productivity has kept a lid on unit labor costs and bolstered profits.

Unit labor costs—the cost per unit of output—rose at an annual rate of 3.4% last quarter, after falling slightly in the fourth. Over the past year, though, unit labor costs are up just 1.4%, while factory unit costs have dropped 1.5%. The puny growth in overall unit labor costs among all nonfarm businesses is about half the rise of inflation economywide. That gap means businesses are in a good position to make money even as sales volumes slip during the slowdown.

BUT WILL WORKERS make any money? A steady drop in consumer spending is another part of the recession thesis. So far, incomes are growing at a healthy pace. The torrid rise in credit, though, bears watching.

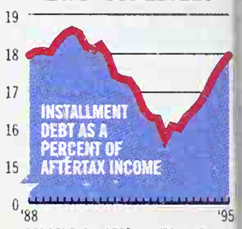
In April, hourly nonfarm wages increased 0.6%, to $11.39. That gain and a longer overall workweek pushed up weekly paychecks by 0.9%, implying that personal income rose in April. How much of that went to taxes remains to be seen when the Commerce Dept. reports the income data on June 1.

April spending doesn't look as encouraging, however. Early reports from retailers and a drop in motor vehicle sales suggest that consumer spending struggled to rise last month, after growing at an annual rate of just 1.4% in the first quarter.

But even though spending looks sluggish, borrowing doesn't. Installment credit grew $13.8 billion in March, after gains averaging $8.3 billion in the previous two months. The March surge was the biggest since August, and half the rise was in revolving debt, which includes credit cards. It jumped $6.7 billion.

As a percentage of disposable income, installment credit rose to 18% in the first quarter, the highest since the debt-crazed 1980s (chart). To be sure, some of the increase can be linked to convenience use of credit cards—balances that are paid off at the end of the month. But because retail sales have slowed so sharply, the rise may also say that consumers are trimming their monthly repayments of old debt.

DEBT IS BACK TO LATE-'80s LEVELS



▲PERCENT, QUARTERLY AVERAGES

DATA: COMMERCE DEPT., BUSINESS WEEK

If so, higher rates are squeezing some households. A recent survey by Western Union Commercial Services shows that "paying other financial obligations" is the reason most frequently given by delinquent borrowers.

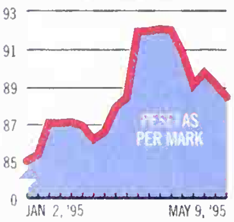
As long as incomes grow steadily, though, consumers are unlikely to throw in the towel. Their spending will buoy the expansion this year, helped by capital investment and exports. Growth in those three sectors should keep the recession bears at bay.

SPAIN

THE PESETA: CALM AFTER THE STORM

Despite Spain's improving economy, its financial markets languished earlier this year, as the peseta weakened and was officially devalued on Mar. 6. Now, however, the peseta has stabilized, and the stock market has hit a 1995 high with record volume, while bonds are rallying as well. Both foreign and domestic investors are showing enthusiasm amid strong first-quarter profits and continued economic gains.

THE PESETA REGAINS ITS BALANCE



▲PESETAS

DATA: DRI/McGRAW-HILL

Real gross domestic product rose at an annual rate of 3% in the first quarter, according to estimates by the Bank of Spain. That's in line with the 3% pace expected for all of 1995 and up from 2% in 1994. Exports, growing at a 20% annual rate, are fueling industrial output with help from business investment. Consumer spending still lags in the face of wage restraint, low confidence, and high—but diminishing—joblessness.

The peseta's new balance appears sustainable. Further interest-rate hikes to control inflation seem likely, and the Socialist government manages to hang on despite accusations of corruption. Also, the currency does well during the summer tourist months.

Risks remain, however, especially politically. The May 28 regional elections will shape the direction of Spain's much-needed fiscal reform, since regional governments have increasing sway in central government policy. Ruling Socialist Party Prime Minister Felipe González wants a lean 1996 budget, but the Socialists are expected to lose ground in the upcoming elections.

The Socialist alliance with the center-right Catalan nationalists is showing cracks, and the main opposition, the center-right Partido Popular, is expected to gain. So chances for early general elections are rising, and the 1996 budget may be watered down, leaving the tough cuts to the nex government.

The other potential spoiler in Spain's outlook is inflation. So far this year, wage demands are modest, and plenty of capacity remains idle—but pressure from both sources will grow next year.

ERIC HOFFMANN

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TRADE

YOUR MOVE, JAPAN

Clinton bets Tokyo will talk turkey before his painful sanctions kick in

It was a balmy Sunday afternoon, but the mood inside the Oval Office on May 7 was somber. President Clinton, Treasury Secretary Robert E. Rubin, and other top economic advisers were mulling punitive tariffs against Japan after the collapse of talks aimed at prying open Tokyo's auto market.

The President's chief worry: Would sanctions roil the financial markets? In the past, talk of a U.S.-Japan trade war caused the dollar to tank against the yen, sending jitters through Wall Street and making the White House back away from the brink. This time, Rubin assured Clinton that traders had already discounted the dollar in anticipation of sanctions. "Not acting could be just as pernicious" to the greenback as pressing the fight, warned one senior adviser.

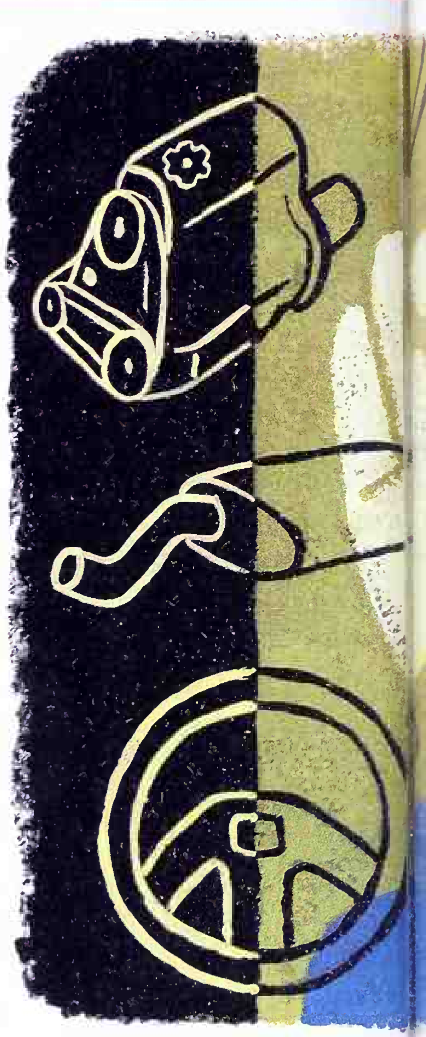
As the 40-minute meeting wrapped up, a resolute Clinton gave unqualified approval to the most serious trade confrontation with Tokyo yet. The strategy now is two-pronged. The Administration will slap up to $5 billion worth of tariffs on Japanese luxury-car and minivan imports. And the Clintonites plan to take their case to the new World Trade Organization, accusing Japan of collusive practices that shut out competition in its car and auto-parts markets. "We're going to resolve this matter and open Japanese [auto] markets one way or the other," vows U.S. Trade Representative Mickey Kantor.

The unprecedented penalties on Japanese imports would take effect by June unless the Japanese offer a deal—and Administration officials calculate they will. Japanese officials, who have threatened a WTO complaint of their own in response, seemed caught off guard by the tough actions. Now, world markets appear to be betting that Japan will blink first. On May 10, announcement of the U.S. actions pushed the dollar up slightly against the yen. Big Three auto stocks also jumped.

JUMPING THE GUN? Tokyo thinks it has good grounds to challenge the U.S. actions. Japanese officials contend that the U.S. needs WTO approval before it can slap sanctions on their products. "Unilateral actions that violate international rules are not acceptable to us," says Kiyohiko Nanao, a top economics official at the Japanese Embassy in Washington. Yet even before the announcement of sanctions, U.S. officials said Japan was hinting at a resumption of talks to resolve the dispute before the first shot in the trade battle is fired.

Whatever the outcome, this is a high-stakes game. Just the prospect of crippling tariffs on Japanese imports is sending shock waves through auto circles from Motown to Toyota City. The sanctions, which would send duties soaring from a current 2.5% to 25% or more, would clobber sales of upscale models such as Toyota's Lexus, Honda's Acura Legend, and Nissan's Infiniti. The Japanese auto makers already have been hurting from the yen's 19% rise against the dollar so far this year, and the tariffs will price them out of the most profitable U.S. niche. "It could be devastating," says Jack H. Thompson, president of Thompson Lexus of Doylestown, Pa. "It could ruin Lexus."

Detroit may suffer damage as well.



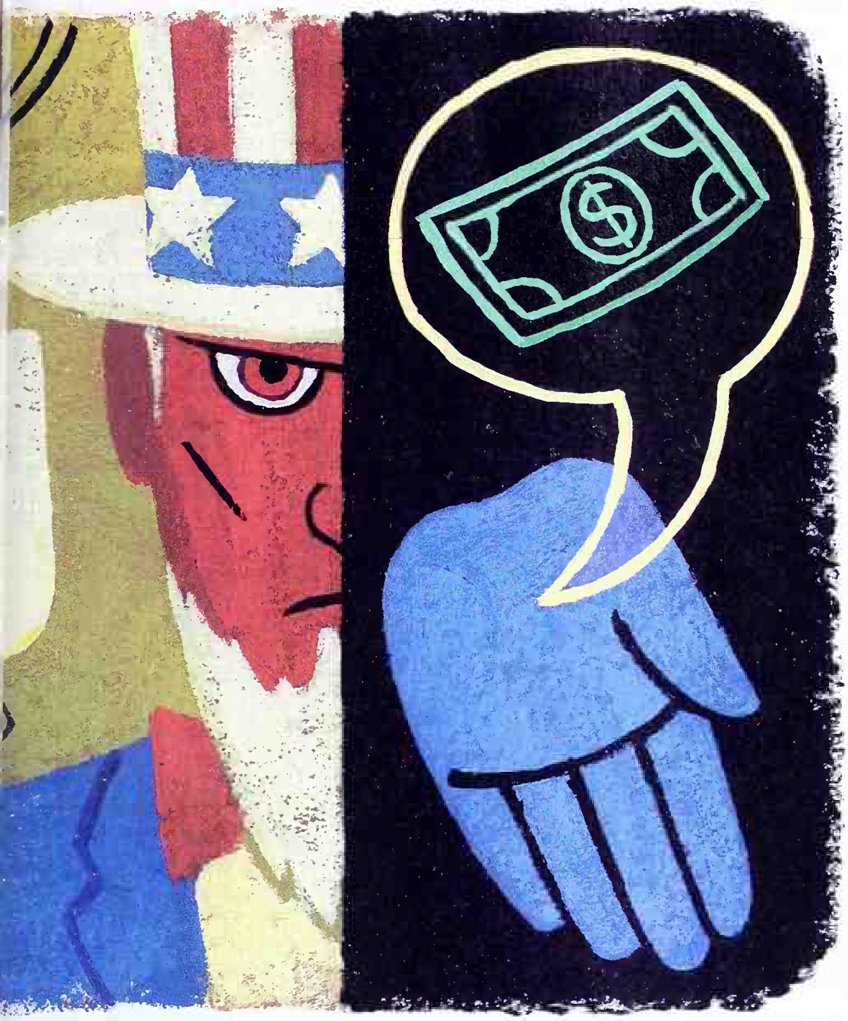
TARGETING JAPAN

SOAK THE RICH Japanese car lin
such as Toyota's Lexus, Honda's Ac
and Nissan's Infiniti, hold 32% of t
U.S. luxury market. Sanctions on th
would mainly hit wealthy, not midd
class, buyers. A potential hitch: Th
main beneficiaries could be Germa
Mercedes and BMW, not Detroit.

Many Lexus and Infiniti dealers als own Cadillac or Lincoln shops and are highly leveraged. If their Japanese luxury franchises are wrecked, "you could end up toppling a house of cards and pulling other dealerships down with it," warns Jim Olson, Toyota Motor Corp.'s group vice-president for external affairs.

It's a risk U.S. policymakers are prepared to take. They're frustrated after

The President seems to have the upper hand: Cheerleade



linton Administration's strategy is to hit Japanese products with big puni-
ariffs while hurting as few American consumers as possible:

MPTIVE STRIKE GM, Ford, and ler control nearly all of the U.S. an market. Already, Japan's share market has plummeted since a Big Three complaint that Japa- carmakers were dumping mini- n the U.S. The big losers are a's Previa and Mazda's MPV.

FULL-COURT PRESS The Clintonites will file charges with the new World Trade Organization against Japan, charging the Japanese with a pattern of collusive trade practices that shuts out competition. Japanese officials are threatening to file countercharges that U.S. sanctions violate WTO rules.

) months of fruitless negotiations over ars and auto parts, which account for early 60% of Tokyo's $66 billion trade urplus with the U.S. The problem, Ad- inistration officials claim, is that Japan asn't budged much in talks aimed at roviding greater access for Detroit's ars in Japanese showrooms and relax- ng regulations that bar the sale of U.S. arts in local repair shops. The biggest sticking point has been Japan's refusal to agree to increase U.S. auto-part purchases by a specific amount, a key Administration demand.

So far, Tokyo has won the public-relations war. Japanese officials scored points by condemning the U.S. proposal as "managed trade." But the Clintonites figure the domestic political payoff and the global economic consequences of a threatened trade war are overwhelmingly in Washington's favor. Hanging tough with Japan will play well with disaffected blue-collar workers, especially members of the United Auto Workers, a potent Democratic force in key electoral states such as Ohio and Michigan. U.S. business has chimed in, too. "The federal government should make it clear to the Japanese that they aren't playing fair and that we won't stand for it," says Roland S. Boreham Jr., chairman of Baldor Electric Co. of Fort Smith, Ark.

SURER TOUCH. The showdown with Tokyo gives Clinton an opportunity to appear strong at a time when he has little chance of moving an agenda through the Republican-controlled Congress. "Standing up for reciprocity in trade is tantamount to standing up for America," says Democratic pollster Geoffrey Garin. An added benefit: The moves will blunt the criticism of neo-isolationists who oppose Clinton's free-trade moves in Latin America and Asia (page 124).

Often ham-handed when it comes to confronting Japan on trade issues, the Clintonites seem to be showing a surer touch. The breakdown in trade negotiations with Tokyo in February, 1994, sparked a run on the dollar. This time, "sanctions have been widely advertised by the Administration," so the impact on the markets has been muted, says David Hale, chief economist at Kemper Financial Services Inc. in Chicago.

In fact, financial trends are running in Washington's favor. The strong yen threatens to prolong Japan's recession, but the U.S. stock market is setting records almost daily, and the bond market is rallying (page 41).

To minimize harm to U.S. industry and middle-class American consumers, the Administration chose to target Japanese luxury imports. Would-be Lexus buyers have lots of alternatives, from U.S. Cadillacs and Lincoln Continentals to German BMWs and Mercedes. That surgical strike is meant to pressure Japanese carmakers into pledging to buy more U.S.-made parts. And bringing a broad claim against Japan at the WTO could undercut its threats to file unfair-trading charges against the U.S. at the new global court.

But the political rhetoric on both sides has escalated to the point that it will be tough for either to find a face-saving compromise. "Everyone has drawn too many lines in the sand," frets

d record Dows at home, a reeling economy in Japan

one U. S. official. The worst-case scenario goes like this: The sanctions go into effect, Tokyo retaliates by quietly slowing exports of electronic components essential to the U. S.—forcing American plants to cut production. Financial markets get fidgety. Then, in a year, the WTO decides in Japan's favor.

But even if that happens, Japan could still lose out. Its auto makers would be hemorrhaging red ink—Mazda Motor Corp. and Nissan Motor Co. are already hurting badly. And a WTO decision against the U. S. could prompt Clinton to withdraw from the WTO under pressure from America Firsters. That would undermine a new world trading system it took seven years to negotiate.

With so much at stake, both sides will probably blink—eventually. But
right now, with Japan least able to
ford a drawn-out confrontation, the U.
is waiting for Tokyo to make the ne
move. So long as the stock and bo
markets take the showdown in stric
the Clintonites have no intention
backing down anytime soon.

By Amy Borrus in Washington, wi
Kathleen Kerwin and David Woodr
in Detroit and Edith Updike in Toky

IN JAPAN'S CORNER, A RESOLUTE INFIGHTER

With his Elvis sideburns and wicked wit, International Trade & Industry Minister Ryutaro Hashimoto scarcely fits the role of Japanese mandarin. Then there's his penchant for caustic outbursts. When U. S.-Japanese trade talks collapsed on May 5, Hashimoto likened his dealings with U. S. Trade Representative Mickey Kantor to returning home to face his angry wife after a late-night drinking session.

Irreverent, yes. But Hashimoto's in-your-face style is playing well with Japanese voters worried about the runaway yen and resentful of America's trade brinksmanship. A former Finance and Foreign Minister, Hashimoto, 57, is emerging as a Liberal Democratic Party (LDP) heavyweight who is showing Japan how to say "no" to America. "There is a sense that the U. S. has set out to destroy the Japanese economy through manipulation of the currency rates," says James Abegglen, a professor of international business at Tokyo's Sophia University.

UNREPENTANT Hashimoto let Kantor know that scoldings would get the Americans nowhere fast

GOLDEN OPPORTUNITY. Hashimoto's brashness seems certain to enhance his ambitions to become Prime Minister. His shot at the top could come soon. Japan's incredible political morass—three governments have fallen since 1993—has resulted in incredibly weak leadership. Stung by the government's poor handling of the Kobe earthquake in January, the approval rating of Prime Minister Tomiichi Murayama plummeted to 39.1% in April. Murayama's grab-bag coalition, dominated by the LDP and his own Social Democratic Party, looks vulnerable. "Murayama is already gone," says Yasunori Sone, a political scientist at Keio University. "He's a lame duck." However, the rival New Frontier Party, formed by LDP defector Ichiro Ozawa, hasn't shown much appeal with voters, either.

With a general election likely late this year or in early 1996, the probusiness LDP will probably maintain control of any new government. That means the next Prime Minister may well come from the LDP's ranks. Hashimoto is on the short list, as is Foreign Minister Yohei Kono, who warned on May 9 that U. S.-Japanese trade ties were getting too "emotional." Both men are representative of a new generation moving into key decision-making posts. Unlike their elders, their perceptions of the U. S. aren't shaped by America's benevolence in the years immediately following World War II.

The son of an occupation-era Cabinet minister—he was a second-grader when the U. S. bombed Japan into submission in 1945—Hashimoto has long viewed America more as a rival than a protector. His early career as an executive of a textile company was deeply influenced by U. S. trade restrictions on Japanese cotton goods in the 1960s. If Hashimoto's political ambitions prevail, Washington will be facing the most assertive Japanese Prime Minister in postwar history.

DON'T BULLDOZE. Hashimoto occasionally shocks American visitors. At a U. S.-Japanese business meeting in February, he lit into Caterpillar Chairman Donald V. Fites when Fites asked if the government shouldn't push Japanese auto dealers to be more open to U. S. goods. Departing from talking points crafted by MITI bureaucrats, Hashimoto said Japan would give in "if you Americans force IBM dealerships to sell Fujitsu and NEC computers," according to one U. S. businessman who attended the affair.

That kind of chutzpah is gaining more currency in a Japan that is edgy about its economy and less worried about offending the U. S. "The best that we can do for relations right now is to get the trade dispute over with," frets U. S. Ambassador to Japan Walter F. Mondale. If Hashimoto rises to the top, however, Washington may find that it faces a leader who has a taste for settling old scores.

By Brian Bremner in Tokyo

OBODY SAW HE YIELD SIGNS

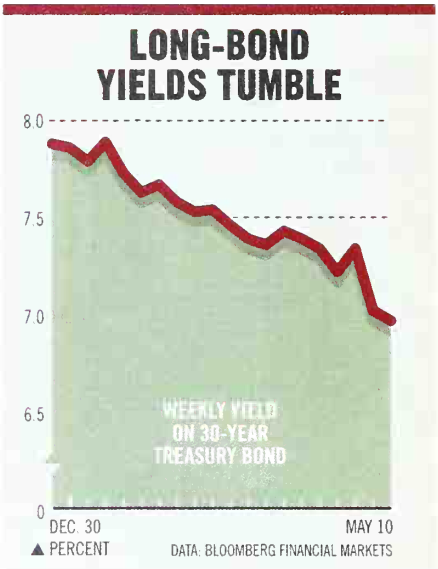
hy the startling bond rally caught Wall Street off guard

A bad case of whiplash. That's about the only way to describe what government-bond traders have expe- enced since the beginning of May. In st six trading sessions, 30-year Treas- y bonds rallied almost half a percent- e point before stalling on May 10. at move sent the yield of long bonds wn to about 7%, its lowest level in ore than a year. Between furious uts of trading, flummoxed traders ied to make sense of a dramatic move at few had forecast.

What caused the out-face in market ntiment? Weaker- an-expected auto les, retail sales, and nployment numbers e the main factors. ch signs of economic owdown all but wiped it inflation fears. "Re- ession, recession, re- ession: That's the buzz- ord [on the trading oor]," says Chicago oard of Trade Chair- an Patrick H. Arbor.

Few trading houses nd banks will admit to aking a hit, but trad- rs say many firms, in- luding some primary ealers of government ecurities, were short- ng Treasuries as re- ently as May 3. Then ame April's employ- ent report, released n May 5. Its higher-than-expected job- ess figures sent investors scrambling to over short positions. "You could see a t of what you'd almost call panic buy- ng," says Arbor.

The severity and swiftness of the ove in bonds was largely unexpected. aniel J. Callahan, head of government ecurities at PaineWebber Inc., calls it one of the most startling rallies the arket has seen in a long time." In- eed, since Jan. 1, the long rate has fal- en about one percentage point. Eco- omic fundamentals can explain the ownward direction, but Callahan ties he magnitude of the move to foreign entral banks buying dollars—more than 40 billion so far this year—and put- ing money into two-year notes.



DATA: BLOOMBERG FINANCIAL MARKETS

> Downward pressure on Treasury yields was expected. The severity and swiftness of the drop was not

The Bank of Japan has been a big buyer, says Alfred Kingon, head of investment firm Kingon International and former U. S. ambassador to the European Community. To keep the yen from bouncing higher, "they're buying our bonds, driving the market up, and stabilizing the dollar for the short-term," he says. Traders betting the Japanese support plan would fizzle took big short positions in notes, says Leslie Rosenthal of Chicago trading firm Rosenthal-Collins Group: "Guys were waiting for Japan to dump."

That's just one reason for all the action in Treasuries. "There is significantly less corporate issuance in the world, because corporations need less money," says Peter G. Hirsch, head of the government desk at Salomon Brothers Inc. Also, fewer mortgage securities are being created. Such a shortage of paper makes Treasuries all the more alluring.

WHY NO CHEERS? A rush out of mortgage-backed securities also contributed to the incredible shrinking Treasury yield. If the Fed were to lower rates to stave off a recession, prepayments on mortgages would speed up. That scenario has money managers and investors seeking noncallable paper to lengthen the duration of their portfolios. That means buying more government bonds.

Why aren't the Wall Street firms raking in the bucks and cheering this decline in rates the way they did in 1993? True, investment houses have an inventory of bonds, and their fortunes improve anytime interest rates go down. But this time, inventories of Treasury bonds were probably too thin to yield any significant profits. "Some traders may have been bullish on bonds, but after being kicked in the head by last year's bond market, they probably didn't have the courage of their convictions," says Joel Unger, a partner in New York investment management firm Stralem & Co.

Where do rates go from here? Naturally, a lot depends on how sharply the economy slows and how the Fed reacts. "The market is implicitly forecasting that the Fed will ease by 50 basis points in the next six months," says the head of fixed-income trading at a major investment house. He regards that possibility as "highly unlikely." Salomon's Hirsch agrees that rates could go back up. He thinks that the market is ahead of itself, being driven more by technical factors than fundamentals.

Still, recession fears may keep the pressure on yields for the next few months. In the longer term, Unger is willing to forecast that yields could fall to less than 5% "if it appears that we're on a path toward a balanced budget." If so, bond markets could remain turbulent for some time. Traders, beware of whiplash.

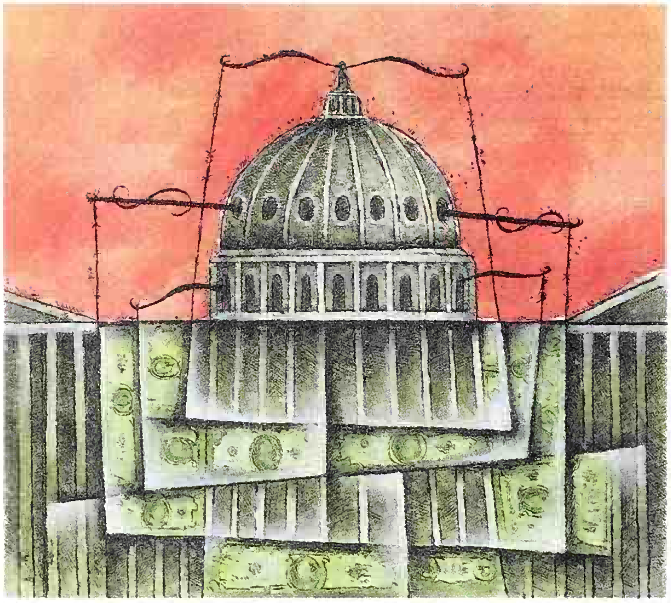
By Suzanne Woolley in New York, with Greg Burns in Chicago

PHOTOGRAPH BY MICHAEL L. ABRAMSON. CHART BY ALAN BASEDEN

THE ECONOMY

BIG GOVERNMENT READS ITS OWN OBITUARY

Even watered-down GOP budget cuts would rock Washington



Ever since their landslide election last November, congressional Republicans have vowed to bring a revolution to Washington. Now, stepping beyond the slogans, they have begun to show the public just what their vision will mean. On May 9-10, the GOP-controlled House and Senate Budget Committees unveiled fiscal agendas that not only propose to balance the budget but would profoundly restructure government.

Medicare would be overhauled to slow spiraling costs. Medicaid and welfare would be cut and turned over to the states. Funds for national parks, federal law enforcement, highway and mass-transit building, environmental protection, and export incentives would be slashed. The Senate panel would kill more than 100 programs and agencies, including the Commerce Dept., while the House would ax more than 300.

Even Social Security—which the GOP pledged to leave unscathed—would take a modest hit, though it would come through the back door. By proposing to lower the official measure of inflation, the House Budget panel would reduce annual cost-of-living increases for retirees.

BUSINESS UNSPARED. Ultimately, the GOP would dismantle many of the corporate subsidies they created, as well as the social safety net built by Democrats. "You're talking about the biggest structural change of our government in decades," says Steven E. Schier, a political scientist at Carleton College in Northfield, Minn. Adds House Budget Committee Chairman John R. Kasich (R-Ohio): "We're about a revolution in this town."

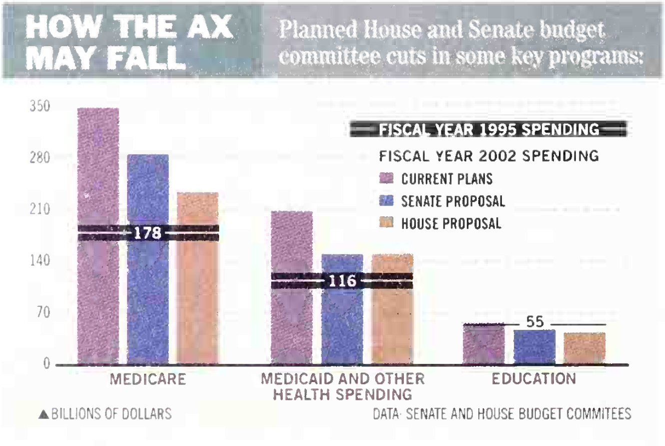
The GOP leadership has a long way to go before the spending targets produced by the budget panels actually become law. Their ambitious blueprints will be under tremendous pressure from Democrats and from traditional GOP constituents—farmers upset over cuts in crop supports, veterans angered by curbs on benefits, and corporate executives who don't want to lose their business subsidies. "Republicans are going to take incredible political heat for the next nine months," says Stephen Moore, director of fiscal policy studies at the libertarian Cato Institute. "They're going to have to have the fortitude to pass a budget that's going to be very unpopular."

Ultimately, indeed, there is little chance that spending cuts of the magnitude of those proposed by the House Budget panel—slashing $1.4 trillion fr
spending in seven years—will be ena
ed. Even if such a plan made it to t
White House, President Clinton wo
never sign it. But the Administrat
is hinting that it may be open to n
spending cuts. And even if the GOP fa
to balance the budget by 2002, it
ready has won the debate over wheth
to dramatically shrink government. C
cedes liberal Senator Fra
R. Lautenberg (D-N.J
"There is a consensus
ought to do this. Now, the
sue is how do we do it."

POTENT MESSAGE. Most ec
omists agree that, over t
long run, breaking the ba
of the deficit will be a winn
That's because it will c
interest rates and shift mo
resources from governme
to the private sector, whi
usually is more productiv
In the next few yea
though, such big spendi
cuts could magnify the i
pact of a cyclical downtu
"Transitional effects could
costly," says David H. Res
chief economist for Nomu
Securities International In
Adds Cynthia Latta, seni
financial economist for DRI/McGraw-Hi
"Long term, it's good for the econom
but short term, you get one knock aft
another."

Still, the real impact of these chang
will not be on macroeconomic policy b
on the relationship between Washin
ton and the public. This new gover
ment envisioned by Republicans wou
be far less costly than recent predece
sors, but it also would do much les
Federal services taken for granted for
generation will be done by states, citie
private business—or not at all. Spendin
on children clearly will be hit (page 44
Government checks that everyone fro
senior citizens to farme
have come to expect may st
arrive, but their purchasin
power will erode as increase
fail to keep up with inflatio

For example, while Med
care spending would continu
to rise, annual increases wou
be held to 6.9%, below the cu
rent rate of health- care infla
tion. If medical inflation doe
not slow, in other words, pa
tients will have to pay more o
accept less care. Such change
in so-called entitlement pro
grams will be hugely impor
tant. After all, nearly half of a



DATA: SENATE AND HOUSE BUDGET COMMITEES

nilies receive some government cash or kind benefits. Overall spending for the st of government—discretionary pro- ams ranging from Amtrak to job train- —would be 12% less than today and % lower after inflation.

All these cuts, though, send a potent essage: The GOP has drawn a stun- ng contrast to Clinton. Elected in 1992 the candidate of change, he has now become a symbol of the status quo. Where the GOP would demolish, Clinton would do a little remodeling.

Who will the public back? To the GOP's critics, the draconian budget plans are destructive. "This is antigovernment," says Robert Shapiro, vice-president of the moderate Democratic Progressive Policy Institute. He argues that voters want Washington to act as an "efficient and effective partner" but they don't want to give up their benefits. Cato's Moore, a frequent adviser to Republicans, counters: "I hope what they want is substantially less government." Want it or not, by 1996, that likely is what the public will get.

By Howard Gleckman, with Dean Foust and Mary Beth Regan, in Washington

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COMMENTARY

By Aaron Bernstein

THE CPI: WHY POLITICIANS SHOULD BUTT OUT

It has become a familiar refrain in recent months. Federal Reserve Chairman Alan Greenspan and other economists have argued that the consumer price index should be lowered because it overstates inflation—a position that delights budget-whacking politicians on Capitol Hill. Because Social Security benefits and tax thresholds rise with the CPI, lowering the index would therefore cut automatic increases in government spending and raise taxes. Indeed, a new budget proposal by House Republicans contains $52 billion in spending cuts and tax hikes over four years on the assumption that the Bureau of Labor Statistics will reduce the index.

An easy fix, yes—but a bad idea. The reason: The CPI understates inflation as well as overstates it, other economists say. And no one is yet sure of the net result.

HIDDEN HIKE. Arcane as this debate may seem, it has a huge effect on all sorts of Americans. The CPI is used to set federal tax-bracket thresholds, personal exemptions, and the earned-income tax credit. A lower index would reduce exemptions, push more taxpayers into higher brackets, and make others ineligible for the credit—creating a hidden tax hike. Social Security, food stamps, and pensions for federal workers also would be pinched. A 0.5% CPI cut would cost the average Social Security recipient a total of $2,700 over 10 years, figures David Certner, an economist at the American Association of Retired Persons.

Economists have struggled with CPI distortions for decades. Every month, the BLS surveys 25,000 retail outlets to collect prices for some 95,000 goods and services. Measuring the posted price is easy. But the BLS also tries to discount portions of price hikes that reflect improved quality. Drawing that line is no easy task. Critics say the CPI undervalues many quality gains, such as drugs with fewer side effects or cars that need less repair work. Overall, inflation may be exaggerated by 0.5% to 1.5% a year, say Greenspan and some private economists.

But many mismeasurement problems run the other way, too. For instance, the BLS considers federally mandated smog-control devices for autos a consumer benefit, so their cost isn't counted in the CPI. But the CPI is designed to measure what individuals buy, not social benefits such as cleaner air. The index would have climbed nearly 0.1% a year faster since 1967 if it included what auto buyers spent on smog control, the BLS says. "If people scrutinized the CPI for downward biases with the same intensity that they do for upward ones, I'm sure you'd find the same size biases," says Daniel J. B. Mitchell, a labor economist at the University of California at Los Angeles. "The political incentives are to find only the upward ones."

QUICK FIX. Changing the CPI would just sow confusion. Companies and unions use it in private contracts, which might then have to be changed. And the markets—as well as the Federal Reserve—make decisions about the economy based on CPI-adjusted wages, productivity, and gross domestic product growth. If the CPI truly does overstate inflation, a good argument can then be made that Greenspan probably has pushed interest rates higher than is necessary to meet an overstated threat.

Given what's at stake, the best response is to keep politics out of the debate and let BLS economists deal with the issue. They've already responded to complaints of inaccuracy. In January, the bureau changed the way items surveyed for the index are sampled to adjust for a weighting bias it had found.

The BLS is engaged in a long-term review of the CPI that likely will bring more changes. That may not satisfy Washington politicians hungry for a quick budget remedy. But it sure beats turning a statistical battle into a political one.

Aaron Bernstein covers the workplace.

PLAYTIME'S OVER Today's children will eventually pay big taxes for small entitlements. The beneficiaries? Baby boomers

GOVERNMENT

VICTIMS OF THE GOLDEN YEARS

Are kids shortchanged as seniors reap vast federal benefits?

To a lot of people, the Republican blueprints for balancing the federal budget over seven years portend a major sacrifice for older Americans. Headline writers, the health-care industry, and seniors' lobbies have focused mostly on proposed cuts in Medicare, the $178 billion health-care program for 34 million elderly.

In reality, though, the cuts may strike just as deep at the other end of the age spectrum. What's striking about the GOP's budget plans is that they do nothing to alter two major trends of the past two decades: the growing imbalance of federal spending on the elderly at the expense of the young, and the increasing poverty rates for children (chart).

Despite GOP rhetoric, seniors suffer relatively mild cuts under the new budget plans. Social Security, the $350 billion retirement program, is left almost untouched. Even Medicare spending will still be allowed to balloon to $283 billion by 2002. That's an annual growth rate of 6.9%, more than double the expected rate of consumer inflation. Federal retirement plan increases remain unchanged.

Much of the elderly's recent gain in wealth has been derived from federal programs that transfer money from young to old. Current U. S. spending on those 65 and older totals $600 billion, more than a third of the $1.6 trillion federal budget and four times as much as is spent on those under 25. Social Security and Medicare cost $15,387 per senior, while combined local, state, and federal spending on elementary and secondary education accounts for just $6,675 per child.

Under the GOP's budget, spending on education and welfare would be cut; the House plan would eliminate the Department of Education entirely. "We are underinvesting in our kids, while feeling obligated to retain our benefits to older people," laments Douglas W. Nelson, executive director of the Annie E. Casey Foundation, which tracks the economic status of U. S. children.

Even if all GOP cuts were adopted, programs for the elderly would still grow far more rapidly than any other segment of the budget. For the average couple retiring today, total health benefits alone are worth $230,000 in constant dollars, up from $65,000 in 1970. By 2010, as baby boomers begin to retire, the benefits under current law will be worth $350,000. The GOP plan would slow but not eliminate the growing imbalance.

Poor children and their parents won't see much relief from income tax cuts in the House version of the GOP proposals, either. That's because federal programs for the elderly are financed by a highly regressive 15.3% payroll tax levied on the first dollar in wages. This tax, which none of the Republican plans address, falls most heavily on the working poor and indirectly on poor kids, whose numbers have exploded in the wake of the single-parent-family boom and 20 years of declining wages among young fathers without college degrees.

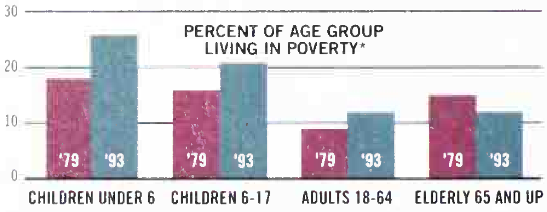
The purchasing power of young families has declined, too, even as the wealth of the elderly has increased. In the early 1960's, the average consumption of 70-year-olds was 71% of the corresponding consumption of 30-year-olds. By the late 1980's, it was 118%.

GENERATION GAP. When today's children grow up, things won't necessarily improve. That's because their "generational tax burden"—the excess of taxes paid over entitlements received—is likely to rise sharply to help support the boomers. The vast majority of today's seniors will reap far more in government benefits than they paid in payroll taxes. But men who turned 40 in 1992 can expect to pay 34% more than they will receive in transfer benefits, according to Boston economist Laurence J. Kotlikoff.

Of course, eliminating the federal budget deficit, as the GOP promises to do, will help today's youth by not adding to their debt burden. But here, too, the GOP plan falls short, for it depends on continued borrowing from the Social Security trust funds to produce a balance on paper. When today's baby boomers begin hitting the shuffleboard courts around 2010, the trust funds will contain a massive $1.3 trillion worth of IOUs as a result of this borrowing. Guess which generation will be handed the bill?

By Paul Magnusson in Washington

KIDS LOSE OUT



*FAMILY OF FOUR EARNING LESS THAN $14,228 IN 1992

DATA: CENSUS BUREAU, NATIONAL CENTER FOR CHILDREN IN POVERTY, COLUMBIA UNIVERSITY, SOCIAL SECURITY ADMINISTRATION

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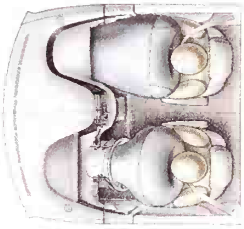

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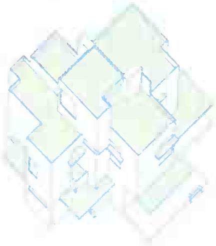

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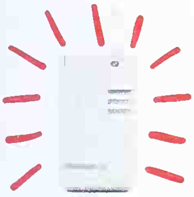

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MARKETING

SCOTT ROLLS OUT A RISKY STRATEGY

It could revitalize its brands–or confuse consumers

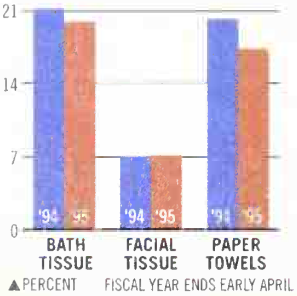
‘Everything but your family and your dogs in this world is for sale at the right price,” Chief Executive Albert J. Dunlap told Scott shareholders on Apr. 18. Whoa: Scott Paper Co. for sale? Dunlap did nothing to dispel the acquisition rumors. On May 1, he announced he would sell extensive timberland and pulp operations. With all this coming on top of massive cost-cutting moves, says a top rival executive in Europe: “[Dunlap] may be polishing up the company to show it off to potential buyers.”

Could be, but if Dunlap is out to sell Scott Paper, he has a fall-back strategy. Dunlap also has replaced much of its top management with savvy industry veterans from the likes of Coca-Cola Co. and Kimberly-Clark Corp. The new team is rethinking Scott's entire marketing approach. It will roll out new packaging and products in June. Says Richard R. Nicolosi, a former Procter & Gamble Co. vice-president who is now Scott's senior vice-president for worldwide consumer products: “We are talking about a revolution.”

LOGO LAUNCH. Scott needs fixing. After a surge that more than doubled its value, to better than $91 a share, Scott's stock lately has settled in under $90. Even takeover rumors haven't given it a boost. Dunlap's 13 months of cost-slashing have hiked profits, but market share is faltering (chart). In the year ended Apr. 2, Scott's bath-tissue sales in key U.S. markets slipped nearly 1%, to $592.6 million, according to market-tracker Information Resources Inc. In paper towels, Scott lost some 5.2% in sales, to $324.8 million.

PAPER TIGER?

SCOTT'S MARKET SHARE WITH FOOD AND DRUGSTORES AND MASS MERCHANDISERS



▲PERCENT FISCAL YEAR ENDS EARLY APRIL

DATA: INFORMATION RESOURCES INC.

Scott's new marketing blitz could revitalize its brands—or just confuse consumers. Some fault Dunlap's plans to use the Scott name and logos on several product lines. “This guy should study history more closely,” says independent marketing strategist Jack Trout. “You've got to have focus. If you have a lot of Scotts, it doesn't mean anything.”

Indeed, Scott is turning time-tested consumer marketing theory on its head. “ScotTowels” now are called “Scott Clean.” “ScotTissue” becomes “Scott 1000.” A breezy blue logo on both bath tissue and towels replaces the distinctive—if tired—brand packaging.

The changes come at a time when potent rival brand names are stealing Scott's thunder. P&G's industry-leading Bounty helped the company achieve a 20.8% sales gain in paper towels last year, and James River's Brawny recently eclipsed ScotTowels, the perennial No. 2 brand. “We're just starting to threaten them now,” says Michael A. Linton, a top exec with James River Corp.

Is CEO Dunlap “polishing up the company to show it off to potential buyers”?

Dunlap is betting that unifying the Scott name will help its products stand out. At the same time, Scott's marketers are trying to expand the brand franchises for Cottonelle tissues and Viva towels. They're adding baking soda and moisture, for instance, to the Cottonelle line, dubbing the product an “advanced personal hygiene” system. And the Viva name is replacing Scott on a line of hardy scrub cloths.

Scott's overseas strategy is even riskier. Its Andrex bath tissue is a top-seller in Britain, for instance. But Dunlap plans to phase the name out. He'll do the same with local brand names in the 80 foreign countries where Scott garners some 45% of its $3.6 billion in sales. His argument: Coca-Cola commands respect the world over, and so does Scott. Says Dunlap: “I truly believe the greatest name of [our brand names] is Scott.”

Taking chances with a healthy fra chise such as Andrex worries some e perts. True, the brand consolidati would save money. Scott plans to shu ter some European factories. But, fre Michael Peters of Identica Ltd., a Bri ish marketing consultant: “Andrex h such good vibes in this country. It is shame...they want to dilute it.”

Dunlap argues that global brandin which will allow for common advertisi messages around the world, will prov to be more important than local sent ment for brands. He also contends th the new strategy marks the end Phase One of his turnaround of Scot “We are out of the restructuring bus ness, and we're in the building bus ness,” he says. And if that doesn't worl he can always fall back on another stra egy: Find a buyer.

By Joseph Weber in Philadelphi with Paula Dwyer in London

GAS PAINS: *Hess is suffering from weak prices at the pump*

EXECUTIVE SUITE

A NEW HESS HELMING HESS

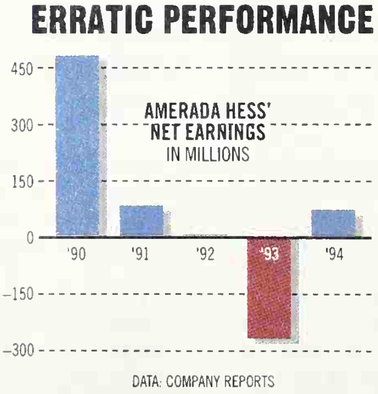
They say the new CEO is a "quick study." He'll have to be

When John B. Hess got married 10 years ago, he made an unusual choice for best man: his father. Friends saw it as another sign of how arge Leon Hess, longtime head of Amerada Hess Corp., looms in his son's ife. But now that John, 40, has taken the chief executive's post from his 81-year-old dad, oil-patch executives wonder whether young Hess will remain in Leon's very long shadow.

Tapped on May 3 to take the chairman and CEO's post at the family-controlled company, John Hess probably still will deal a lot with Dad. The tough-minded oilman who built Hess from a tiny home-heating concern into a global oil company still controls 12.9% of Hess stock, compared with his son's 1.7%. He continues to chair the board's executive committee. And although Leon is giving up the corner office in Hess's New York City headquarters, he's still likely to come by daily. Says Eugene L. Nowak, oil analyst with Dean Witter Reynolds Inc.: "Leon is not going to fade away."

MODEST REBOUND. That could be a problem, since change may be what Amerada Hess needs. The company has been struggling with erratic sales and profits for the last five years. Hess showed a $268.2 million loss in 1993, as sales dipped to $5.9 billion. Last year's rebound was modest: a $73.7 million net on $6.7 billion in sales (chart). In 1995's opening quarter, Hess earned just $25.2 million on $1.98 billion in sales, down from last year's $83.7 million gain on sales of $1.87 billion.

John Hess, who pumped gas as a youngster at Hess stations, is expected to seek more solid footing. A 1977 Harvard University MBA graduate, he has already done a six-month study aimed at boosting profits. Soon he'll implement changes, a Hess spokesman says. He'll likely call for aggressive cuts in $3.7 billion in debt left over from a costly three-year capital-spending program. Both Hesses declined to be interviewed.



ERRATIC PERFORMANCE

DATA: COMPANY REPORTS

Hess may have to proceed carefully, if he wants to undo moves by his father that have depressed earnings. For instance, he may seek partners to help shoulder the cost of Hess's giant Virgin Islands refinery. The facility, recently upgraded for about $1 billion, is the pride of the elder Hess. But it has suffered from weak gasoline prices. Grouses one investment manager who is steering clear of Hess stock: "They dumped a lot of money on St. Croix, which turned out to be a bad investment."

Friends call John Hess a quick study. As senior executive vice-president, he has overseen exploration and production operations, helping develop fields in Canada and the Gulf of Mexico. Although unschooled in geology, he's as conversant with oil-field science as staffers, associates say. David F. Chavenson, a Harvard classmate and treasurer of a Hess joint-venture partner, Oryx Energy Co., describes Hess as "very thorough, very smart."

John Hess has slogged around foreign oil fields with his father since he was 7. Fluent in Arabic and Farsi, he studied in Beirut as a Harvard undergraduate and later grew close to some Middle Eastern oil ministers. At B-school, he played down his moneyed background. "John doesn't jump off the page at you. He's very thoughtful," says Lorillard Inc. Chief Andrew H. Tisch, another former classmate and frequent tennis partner.

STRONG HAND. Young Hess shares his father's passion for the family business, working the same long hours. And like his father, who owns the New York Jets, he leaves coaching to the pros, even though he regularly attends home games. "Neither one of them has ever sent in a play," says Jets President Steven L. Guttman. But he's always deferential to his father. One analyst recalls him obliging Leon's request at one meeting to fetch Cuban cigars for visitors.

If Amerada Hess is to put some better numbers on the board, young Hess may have to play a stronger hand with his father. Leon Hess routinely deferred to his own father, Mores, the company founder who stayed on the job until his death at age 92 in 1965. Each morning, Leon brought his father the checks to sign. That, at least, is one task John Hess may be spared.

By Joseph Weber in Philadelphia

PHOTOGRAPH BY STEVE WINTER/BLACK STAR; GRAPHIC BY ALBERTO MENA/BW

DEALS

TWO FOR THE I-WAY

News Corp. and MCI shake on a $2 billion multimedia deal

Rupert Murdoch is on a roll. In early May, he announced that his News Corp. had notched up $220 million in pretax profits for the third quarter, a hefty 20% gain. On May 4, the Federal Communications Commission O. K.'d Australia-based News Corp.'s ownership of Fox Broadcasting Co. The next day, he hopped on a plane to Los Angeles, where he shook hands with MCI Communications Corp. Chairman Bert C. Roberts Jr. to cement a deal that stunned the communications world: a 50-50 joint venture designed to put the companies on the leading edge of the multimedia revolution.

As part of the deal, announced on May 10, MCI agreed to invest up to $2 billion for a 13% stake in News Corp. The deal has significance well beyond the money involved, though: The venture aims to meld MCI's high-tech distribution network and sophisticated billing systems with News Corp.'s vast supply of movies, TV shows, and newsgathering capability. Neither company will discuss specific plans, but both acknowledge their intent to distribute information, education, entertainment programming, and new pay services around the globe. Says Murdoch: "Both companies understand how the market is changing."

PARTNERS: *Murdoch's programming and Roberts' distribution could be a monster*

FEARFUL SYNERGY. Talks between Murdoch and Roberts began last fall. Over the course of several informal meetings at industry gatherings, the two executives saw that their companies had complementary skills and cultu For MCI, the combinati builds on its efforts to diver fy away from the commod long-distance industry and i content-oriented business with high profit margins. L year, it began selling its o software program and n services for the Internet. A in March, the company nounced a venture with t Public Broadcasting Serv to develop and distribute el tronic information.

The tie with Murdoch h the potential to take M much further along the Way than any of those deals. Pote tial rivals recognize that. "MCI doesn bother me," says Tele-Communicatio Inc. Chairman John C. Malone. "B Murdoch scares me to death." A British Telecom PLC, MCI's large shareholder, is thrilled. "The opport nities are limitless," gushes spokesm Ted Graham. With profits up, the F imbroglio over, and a big multimed deal in hand, Rupert Murdoch could agree more.

By Mark Lewyn in Washington, wi Ron Grover in Dallas and Pau Dwyer in London

COSMETICS

AU NATUREL? AU CONTRAIRE

A more glamorous look is reviving cosmetics sales

Shopping for makeup on Chicago's Michigan Avenue, Sebrena Coleman gives her usual dark-brown lipstick the go-by. This May afternoon, she wants a brighter, redder lipstick and blush, plus a new foundation. "I'm tired of the same old look," says the fortyish Coleman, who is on a business trip for the Louisiana Dept. of Revenue. "I've always been a blend-in person. Now I'm willing to make a statement."

Amen to that, say cosmetic companies. Makeup sales have been drab since 1989, when the natural look came to the fore. Now, many fashion executives say, a glamorous, more colorful look is making a comeback. Reds and coral shades are in; browns and taupes are becoming passé. Some forecasters even predict baby-blue eye shadow could become popular again. "There's definitely a return to pretty, clear colors," says Kat James, a model and makeup specialist for Maybelline Inc. "We've missed color for so long it's something that is going to endure several seasons."

STAR POWER

Hollywood can set makeup trends: In the '40s, well-painted Hedy Lamarr was an icon

MASS APPEAL. The net result: Makeup sales are definitely picking up. Mass-market cosmetic sales rose 3% through Apr. 15 vs. a 5% increase for all of 1994. Colorful items are doing even better: Lipstick and eye shadow sale have each jumped 5%, accor ing to A. C. Nielsen Co. Bon ta Austin, a Prudential Secu ities Inc. analyst, predicts tha mass-market makeup comp nies, including Maybellin Revlon, and L'Oréal, as we as Procter & Gamble Co. Cover Girl and Max Fact lines, will get a sales boost.

Why the switch? The natu ral look has been around f five years—eternity in th fashion world. Also, Hollywood actresses such as Sharon Ston are reviving the glamorous "starlet" image. "The 1990s have been duller tha dishwater," says Allan Mottus, publishe of *The Informationist*, a beauty bi newsletter. "People are looking for something that will bounce out at them."

The new look likely won't go as far a the stark color contrasts of Hedy Lamarr and other 1940s icons of glamou Improved milling technology has mad blushes and eye shadows more translu cent than they were then, so women ca use more color without looking too made up, says Maybelline Executive Vice-President Cathy Wills. Better tell Madonna.

By Susan Chandler in Chicag

CLOCKWISE FROM TOP: PHOTOGRAPHS BY ALAN LEVENSON, KATHERINE LAMBERT, LASZLO WILLINGER/MPTV PHOTO ARCHIVE

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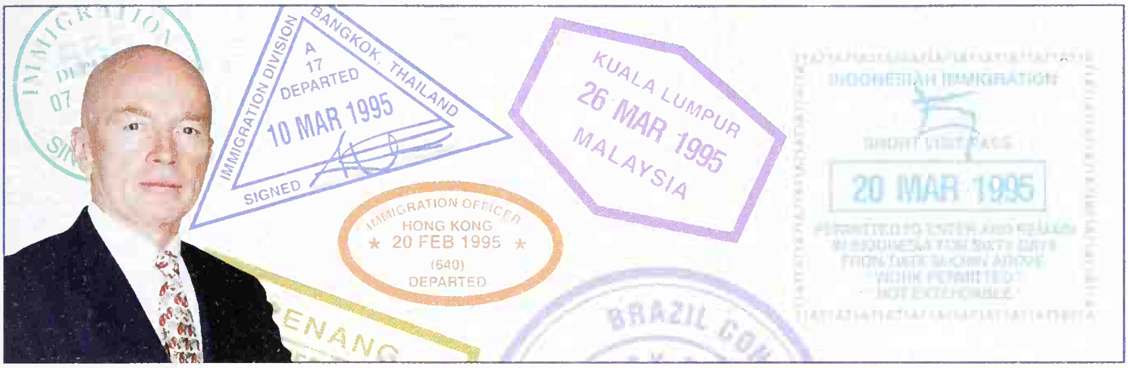
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INDUSTRIES

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Big Tobacco's big bucks can still turn antismoking laws around

Near midnight on May 5, two dozen lobbyists—the Tobacco Team—gazed at the TV monitor in the rotunda of the Florida state legislature. They watched in silence as votes were tallied on a proposed repeal of a law that had paved the way for the state's suit to recover $4.4 billion in smoking-related Medicaid costs from the cigarette industry. As soon as the landslide vote in favor of repeal was announced, the lobbyists erupted in high fives and back-slapping. "It was a big night for us," Philip Morris Cos. lobbyist John French says with a grin. "I felt like I finally got the monkey off my back."

The monkey really never had a chance. Ever since Governor Lawton Chiles slipped the cigarette amendment into an otherwise innocuous Medicaid bill in the waning hours of the 1994 session, an incensed tobacco industry had been on the warpath seeking its repeal. The industry relied on its traditional strengths: money, power, and influence. The combination worked once again—proof that tobacco makers are far from vanquished by negative public opinion and antismoking legislation.

PALM BEACH STORY. Indeed, a year after state-initiated Medicaid suits such as Florida's started appearing, the tobacco industry is fighting back with a vengeance, building on its decades of highly effective statehouse lobbying and courtroom maneuvering. And while it could take years to resolve the state cases now pending (table), the industry has again demonstrated its durability.

Until the legislative appeal, Florida's suit, filed in a Palm Beach court last January, had appeared the strongest. Chiles had crafted an amendment designed specifically to deny the cigarette industry several of its tried-and-true legal defenses. Manufacturers would be prevented from arguing that consumers willingly assumed the risk of smoking; the state, meanwhile, would be able to establish a statistical connection, rather than a direct causal link, between smoking and health problems.

TOBACCO'S BATTLEFIELD

Major pending state cases against the tobacco industry

CALIFORNIA State legislator Richard Katz introduced a Florida-style Medicaid reimbursement bill on Feb. 23. Legislation was tabled in mid-April.

MINNESOTA The state and Blue Cross/Blue Shield filed suit last August seeking recovery of tobacco-related health expenses paid by Medicaid and Blue Cross. The industry wants to disqualify Blue Cross as a plaintiff.

MISSISSIPPI The state, seeking reimbursement of up to $100 million annually in health-care expenses, has won two key procedural victories in court and survived the industry's motions to dismiss.

WEST VIRGINIA In early May, tobacco attorneys persuaded a judge to drop 8 of 10 counts brought by the state, leaving only antitrust and consumer protection claims intact. The state is contemplating appeal.

DATA: BUSINESS WEEK

Ultimately, though, the innovative legal strategy was beaten by politics and big-money. The tobacco camp hired the cream of the Tallahassee lobbying crop—including Jim Krog, the governor's former campaign manager. Signing up new troops from across Florida and as far away as Washington, a contingent of more than 50 strong descended on lawmakers and editorial boards.

By conservative estimates, the indu
try spent no less than $750,000 on t
repeal campaign; it gave $121,500
campaign funds to the lawmakers in t
Republican-dominated legislature,
cording to Florida Legislative Report
Inc., which tracks contributions. Mea
while, it enlisted as an ally Associat
Industries of Florida Inc., a 6,000-me
ber trade group that filed suit to ch
lenge the state law's constitutionali
That suit still is pending.

BAD OMEN. In West Virginia, mea
while, a state judge on May 3 thre
out 8 of Attorney General Darrell
McGraw Jr.'s 10 counts against tobac
makers. McGraw had sued in Septe
ber, 1994, seeking about $1 billion
Medicaid costs. He sa
he will appeal the judg
decision. But the rul
is a bad omen for of
cials in other state
whose cases rest on t
same legal rationale: th
as innocent third partie
states have unfairly be
stuck with the cost
treating tobacco-relate
illnesses of poor and in
gent patients.

The innocent-victi
argument may be th
weakest part of the ca
es, argue tobacco atto
neys. They expect to us
the legal theory of subr
gation, which holds th
third parties can colle
damages only if the vi
tim could have collecte
on his own. So far, "n
[victim] has been able t
do that," asserts Danie
W. Donahue, deputy gen
eral counsel for R.J
Reynolds Tobacco Co.
Mississippi judge rejecte
such reasoning in a Feb
ruary decision. Still, th
Florida law, which essen
tially outlawed the subro
gation defense, was criti
cal, concedes W. Dexter Douglass
Chiles' general counsel. Without the law
"it's not nearly as certain a lawsuit."

The fight, clearly, is far from over
Governor Chiles has vowed to veto the
Florida repeal. Polls indicate two-thirds
of Floridians favor his law, and he'l
work to lure enough Democratic legislators to avoid an override. But Team Tobacco has staying power. Public opinion is against it. Yet money, and lega
acumen, often talk louder than voters.

By Maria Mallory in Tallahasse

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In Business This Week

EDITED BY KEITH H. HAMMONDS

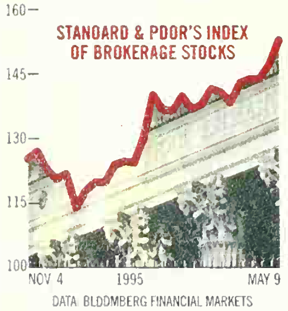
RUMORS OF DOW CORNING'S DEATH . . .

IS THIS THREAT FOR REAL? Dow Corning announced on May 5 that it is "actively considering" filing for bankruptcy-law protection. The chemical maker reported robust first-quarter earnings but noted that escalating legal costs from breast-implant litigation could impair its operations. That is, perhaps, an understatement: A federal judge determined that a $4.2 billion global settlement reached with Dow Corning and other companies last year will not nearly compensate all the women filing claims. Nevertheless, some legal experts think that Dow Corning's bankruptcy warning is merely a bluff meant to cow plaintiffs into settling. Dow Corning has gotten some good news lately, too: On Apr. 24, the government said it had dropped a two-year criminal inquiry related to implants.

CLOSING BELL

SEE A SHADOW?

When bulls stampede on Wall Street, brokerage stocks are usually the first to jump. So it goes in the current equity bull run: Since late last year, Standard & Poor's index of brokerage shares has climbed 38%, more than double the market's gain. The trend isn't completely incidental. Brokerages are sort of the groundhog of Wall Street: Historically, they have started to sputter four to six weeks before the broader market heads south. For now, there's no sign of weakness.



DATA: BLOOMBERG FINANCIAL MARKETS

LIABILITY REFORM'S BIG STEP FORWARD

TIME TO PUT UP A NEW SIGN outside Congress: "GOP-controlled, business-friendly." After 15 years of pushing for changes to the product-liability litigation system, Corporate America has finally achieved a breakthrough: On May 10, the Senate voted 61 to 37 to pass reform legislation. The Senate version, which would limit punitive damages for lawsuits on defective products, actually is less aggressive than the corresponding House legislation. But it may stand a better chance with the White House, which has threatened to veto a broad-ranging law. A House-Senate conference on the bill is expected as early as this summer.

SHE WORKS HARD FOR THE MONEY

THE FACE OF THE FAMILY breadwinner is changing. In a study entitled *Women: The New Providers*, released May 11, 55% of 1,502 employed women surveyed said that they provide half or more of their families' income. Even among employed married women, 48% earn at least as much as their husbands. An additional 24% expect their earnings to provide more financial security for their families over the long term than their partners—a jump of 15 points since 1981. The upshot: "If we care about families, we have to care about women's pay, because women's earnings are directly related to the welfare of families," says Arlene Johnson of the Families & Work Institute.

HEADLINER: GERALD McENTEE

EXIT LANE?

The battle lines have been drawn. On May 9, public employees leader Gerald McEntee announced that an 11-union coalition would select candidates to oppose AFL-CIO President Lane Kirkland when his term expires in October.

For months, McEntee and other opponents have urged Kirkland, 73, to yield to a more aggressive leader. Their top choice: Secretary-Treasurer Thomas Donahue. But Kirkland refused to leave, prompting Donahue on May 5 to retire rather than be caught between his old friend and the reformers. "If Tom had run with Lane, it would have been more difficult for us," says McEntee. "But now Lane stands alone."

The dissidents, who represent almost 50% of the federation's 13.3 million members, likely will push Kirkland from the office he has held since 1979. Among those mentioned to head their slate are machinists leader George Kourpias, mine workers chief Richard Trumka, and service employees head John Sweeney. Says Kourpias: "It would be sad to see Lane end his career in a defeat, but that's a decision he has to make."

By Aaron Bernstein

A FORCED LANDING FOR TWA

THE WEAKEST BUCKLED FIRST. On May 9, financially strapped TWA said it was backing off the $50 cap on travel agent commissions imposed by the industry last February. Under an agreement with the American Society of Travel Agents, TWA will resume paying 10% commissions on all domestic tickets. In return, the carrier will be dropped as a defendant from the agents' antitrust class action. But other airlines, with pockets deeper than TWA's, likely won't follow suit.

KIMBERLY-CLARK QUITS SMOKING

YIELDING TO SHAREHOLDER pressure and the threat of legal liability, Kimberly-Clark announced on May 9 that it would spin off its $404 million tobacco-related businesses. That represents a startling about-face for the maker of Kleenex and Huggies, which had very publicly resisted the move. But months of attacks from activist shareholder groups and customers, including a March letter-writing campaign dubbed "Kleen Out Tobacco From Kimberly-Clark," took their toll. The company will shed its cigarette paper and reconstituted tobacco business. Kimberly-Clark's stock rose 3.3% on the news.

ET CETERA . . .

■ Swiss Bank will pay $1.37 billion for S. G. Warburg's investment banking business.
■ Rubber workers voted to end their 10-month strike at a Bridgestone/Firestone plant.
■ Caterpillar rejected an offer from auto workers to reopen "full-scale" bargaining.
■ W. R. Grace said it likely will sell off its National Medical Care subsidiary.

(TOP TO BOTTOM) PHOTOGRAPHS BY RICK REINHARD/IMPACT VISUALS. JOHN HARRINGTON/BLACK STAR

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OWEN ULLMANN

IAYBE EVEN THE GENERAL CAN'T UTFLANK THE TWO-PARTY SYSTEM

was a fleeting moment, but to disgruntled Americans who iew the established political parties as rotten to the core, was sweet. For a few weeks in June, 1992, Texas billion- Ross Perot led Republican incumbent George Bush and nocratic challenger Bill Clinton in the polls.

'erot, of course, went on to talk himself out of a chance for White House. But his legacy—an impressive 19% of the e—inspires backers of a "third force" Presidential bid. ir new champion: retired General Colin L. Powell. Amid ipant cynicism with politics as usual, Powell ‹s tantalizing. He's a war hero, an African erican whose bootstrap rise gives him appeal oss racial lines, a fiscal conservative with lerate social views, and a man untainted by shington's partisan stench.

'here's only one problem with this dream didacy. Powell's odds of winning as an inde- dent or third-party candidate are only slight- etter than Saddam Hussein becoming Emir Kuwait. True, Powell-mania will build this fall he blitzes through a national tour promoting inspirational memoir. But campaign pros ıbt Powell poses a potent threat if he es- ws the party system.

Vhile Americans voice strong support for independent candidacy, they dislike casting test votes. Just ask George Wallace in 1968 John Anderson in 1980. Both were distant ds. "The American mind has two [parties] as a limit," says mocratic pollster Claibourne Darden. "One of the major ties would have to disintegrate first."

Since Powell's stands on the issues are largely camou- ged, the idea of his unbeholden candidacy is more powerful n its reality. He represents a rejection of political career- , ideological extremism, and partisan sniping. Widespread gust with the status quo explains why Powell, with little ganization, wins up to 28% of the vote in three-way matchups with Clinton and Senate Majority Leader Bob Dole (R-Kan.) "Powell has tremendous appeal," admits GOP consultant James H. Lake, an adviser to California Governor Pete Wilson's Presidential campaign.

But history may be an insurmountable barrier. The last time a third party won was when the new Republican Party supplanted the Whigs, and their candidate, Abraham Lincoln, captured the White House in 1860. Since then, only one third-party candidate has even finished second: In 1912, ex-President Theodore Roosevelt, campaigning as a Progressive, got 28% of the vote.

POWELL: *GOP bound?*

MIDDLE GROUND. Perot is flirting with another run, but pollsters believe he peaked in '92. And rights activist Jesse Jackson has hinted he may wage an independent campaign, though his left-leaning base seems too narrow. In contrast, early polls suggest Powell could approach Teddy Roosevelt's numbers. Yet Democrats and Republicans still command the support of at least 30% of the electorate apiece. So Powell would have to win the votes of virtually everyone in the middle to come out on top.

That sobering reality convinces top GOP operative Kenneth M. Duberstein, part of an informal kitchen cabinet of Powell advisers, that longtime independent Powell should run as a Republican—if he runs. Others float his name as a potential GOP Vice-Presidential candidate. But the General remains coy about his intentions.

There is, experts caution, one scenario for an independent winning in '96: The GOP nominates a far-right candidate, and Clinton is hit by new Whitewater bombshells or some other scandal. "Under those circumstances, I can see Powell winning," says Claremont McKenna College political scientist John J. Pitney Jr. Barring that chain of events, Powell, Perot, and other heroes of the third force will remain bigger hits on the lecture circuit than at the ballot box.

CAPITAL WRAPUP

EARISH INDEXED-BOND MARKET

Wall Street may scuttle the Trea- ury Dept.'s plan to issue inflation-in- exed bonds, securities that offer re- urns linked to the inflation rate. Ad- ninistration economists like the idea ecause it might lower the Trea- ury's borrowing costs. But bond ealers—fearful flexible rates would educe the need for trading—appear o have the ear of Treasury Secre- ary Robert E. Rubin, an ex-Wall Street trader who's said to be lean- ng against the idea.

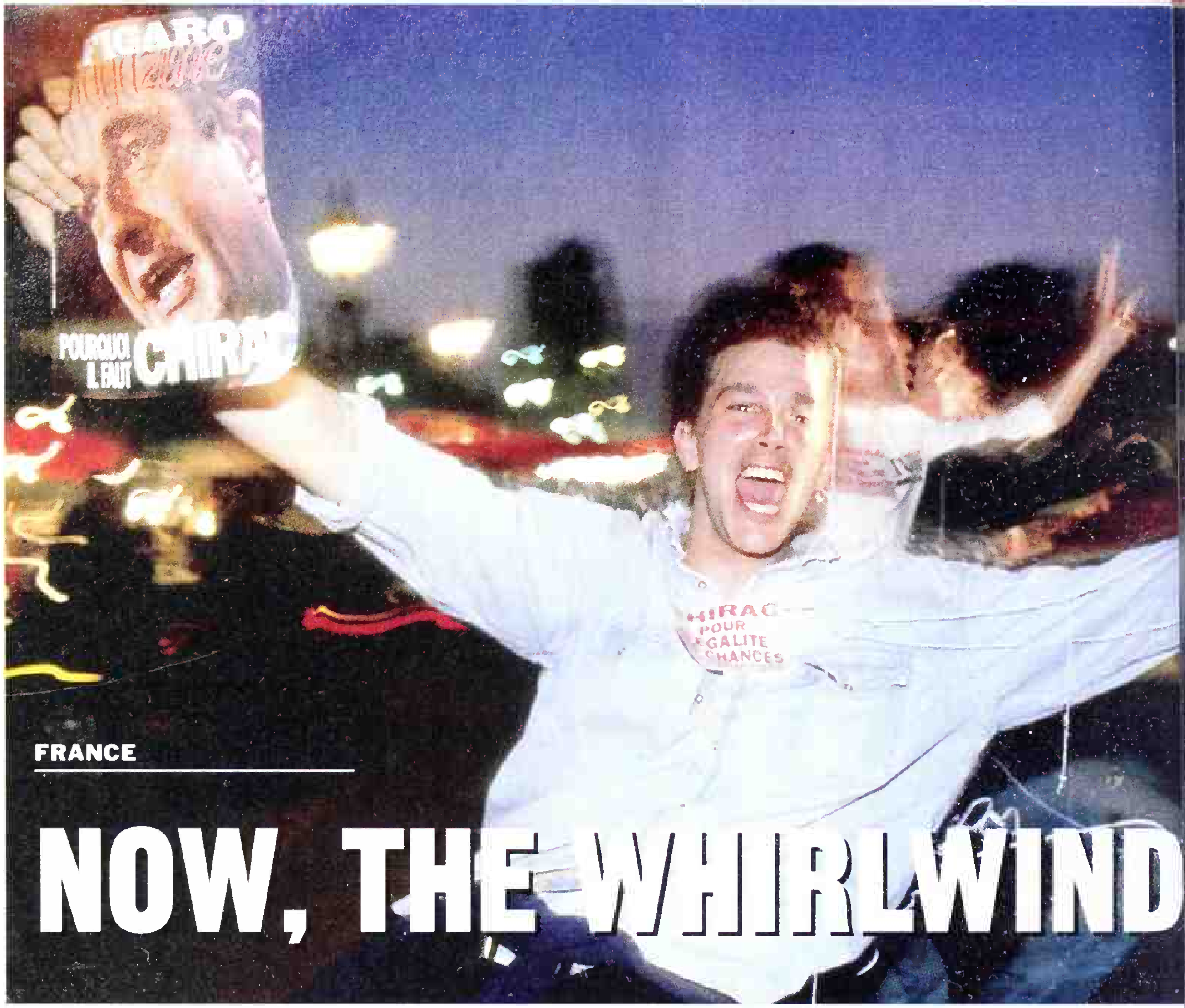
SPECTER'S SLOW START

▶ Senator Arlen Specter (R-Pa.) is the first Jewish GOP Presidential contender. So how's he doing with fellow Jews? Don't ask. Specter trails Senate Majority Leader Bob Dole (R-Kan.) among Jewish Republicans 49% to 10%, according to a May 2-5 poll conducted for the American Israel Public Affairs Committee. The same survey shows Jewish voters favoring President Clinton over Dole by 3 to 1—even wider than Clinton's 1992 margin over George Bush.

TAX-CUT CUTBACK?

▶ Even House Majority Leader Richard K. Armey (R-Tex.), a top tax-cut diehard, is bowing to the inevitable: compromise with the Senate on the massive tax reduction the House approved in April. With polls showing deficit reduction more popular than tax cuts, the Senate is sure to pass a bill less generous than the House's $345 billion seven-year plan. When the two chambers meet over differences, "there may be some latitude" to deal, Armey concedes for the first time.

DENNIS BRACK/BLACK STAR



FRANCE

NOW, THE WHIRLWIND

Chirac's first months will see a barrage of action aimed at cutting joblessness

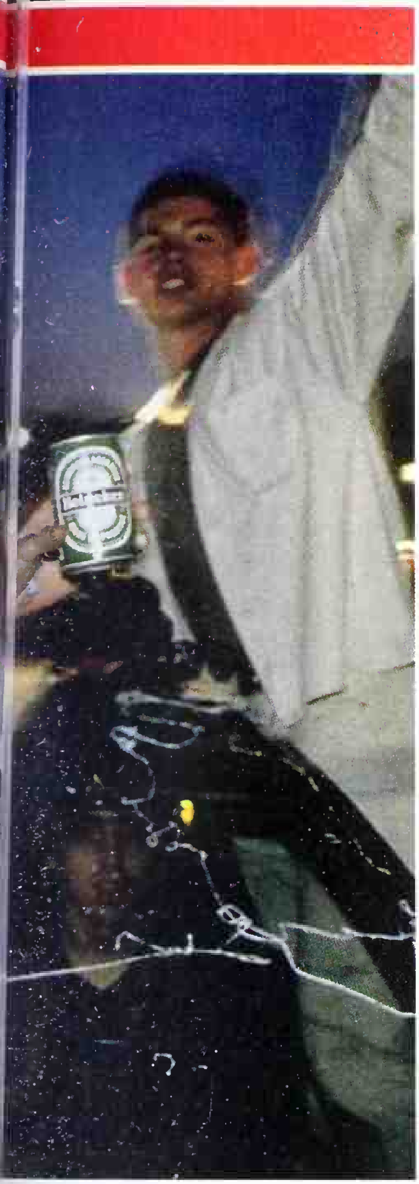
As they sat side by side at a Paris parade marking the end of World War II, the two men evoked distinctly different eras. Ailing, gray-skinned François Mitterrand, 78, who has run France longer than any elected leader in its history, looked like a wizened war veteran applauding the Foreign Legion as it marched down the Champs Elysées. Beside him, Jacques Chirac, tall and trim at 62, seemed the vigorous image of the "deep change" he promises after succeeding Mitterrand as France's President in mid-May.

It's a historic moment for France—the first time a conservative has occupied the Elysée Palace since 1981. Chirac inherits a France torn by record unemployment and a sense of disorientation about its place in global politics. An astute politician who has never articulated a clear philosophy, the new President will move fast to jolt his country out of its despondency. Most likely he will resort to a range of measures. Those include tax breaks, privatization, and pension reforms, as well as more statist tactics such as employment programs and bullying the central bank into lowering interest rates. Says Chirac: "France needs oxygen."

Chirac's first months in office will see a barrage of action, and his choice of top ministers is crucial. For Prime Minister, Chirac's likely pick is Alain Juppé, the outgoing Foreign Minister. A respected technocrat, Juppé is a centrist who would reassure French and foreigners alike. "Juppé is the anchor this administration needs," says Peter Ludlow, director of the Centre for European Policy Studies in Brussels. The likely choice of fre
marketer Alain Madelin as Finance Mi
ister would assure the markets that Ch
rac favors budget reform and furthe
deregulation. More disturbing to outsi
ers would be a top post for National A
sembly President Philippe Séguin, an e
onomic nationalist who led France's figl
against the Maastricht Treaty.

STRIKE THREAT. Creating jobs is all-in
portant for Chirac and his advisers. B
mid-July, a bill to encourage hiring shou
reach parliament, which is 80% controlle
by Chirac's allies. Among other proposal
it should pay companies cash subsidie
for new hires, cut their social securit
contributions, and possibly launch publi
works programs.

Chirac claims he also wants to lighte
the government's heavy hand. "We hav
too many bureaucrats," says the ne
President, who promises to cut the num
ber of Cabinet ministers to a bare mi
imum. Many experts think bureaucrati
meddling limits French competitivenes



PARTY TIME: *Parisians danced in the streets to celebrate Chirac's win*

in global markets. Some French executives are skeptical of his resolve to shrink government, however. The CEO of a large French consumer-products company notes that conservatives have traditionally been more partial to state direction of the economy than the French left. Although Chirac plans to continue privatizing industry, his stated goal is to offset budget deficits rather than boost industrial efficiency.

To win over those who have jobs, Chirac has hinted he'll raise the minimum wage beyond the inflation-pegged annual hike due on July 1. He has been jawboning business to share the wealth of rising profits, arguing this will boost consumer spending. Jacques Calvet, chairman of carmaker Peugeot, wishes the new President would stop such talk. "Wages should be discussed in each company, not forced by government," he complains. "This centralist tradition must be destroyed."

It's the centralist tradition that the unions want to uphold. Long docile, French organized labor mounted a gaggle of preelection strikes—including five walkouts in two months at Air Inter, the domestic airline. Unions promise more actions unless pay packets get fatter. Many observers warn that France's two rounds of presidential balloting may be followed by a "third round"—of workers voting with their feet in the streets.

As he faces pressure to create jobs, Chirac may push the Bank of France to lower short-term interest rates. A cut in rates would surely force the franc down against the German mark, and a weaker currency would boost exports and create some 50,000 jobs, says Paris-based economist Eric Chaney of Morgan Stanley & Co. However, Chirac might have a fight on his hands with the central bank, which won independence only last year and has yet to test its mandate.

LOOSE CANNON? More important, any move by Chirac to weaken the franc will resurrect fears that he is willing to imperil its status as a hard currency whose value moves in lockstep with the mark. "That would be very, very risky," says one senior German official, who warns that higher French interest rates would result. In turn, a crack in the franc would call into question Chirac's commitment to the Franco-German "special relationship" that lies at the heart of the European Union.

Chirac insists he wants to strengthen that relationship, yet he opposes many of Germany's favorite Euro-ideas, including a European Parliament with expanded powers. He would prefer that national governments have a greater say in EU matters. Chirac's personal ambiguity on Europe combined with far-right pressures in his party seem likely to push France closer to British views on maintaining national sovereignty, and away from German federalism.

Many outsiders fear France's new leader may prove a loose cannon on Europe's decks. Mayor of Paris and twice France's Prime Minister, Chirac has a history of changing tack according to the era and the audience. Last fall, he proposed a second French referendum on European monetary union—narrowly approved by voters in 1993. He recanted during the campaign but then seemed to change his mind once more in the final days before the presidential election, again proposing a referendum on European institutions. The shift apparently occurred in the wake of the far right's success in the first-round balloting on Apr. 23, when it won 20% of the vote.

As a Gaullist, Chirac is also heir to a strong nationalistic tradition. A British diplomat in Brussels predicts the new President will have "a harder edge" than Mitterrand in defending France's interests. Not to worry, says Yves-Thibault de Silguy, one of France's two European Commission members and a former aide to conservative Prime Minister Edouard Balladur, whom Chirac trounced in the elections. "Chirac is fundamentally a European" who wants to continue the drive for unity, de Silguy insists.

CHIRAC'S PRESIDENCY

HIS PLAN...

JOB CREATION Look for a two-year suspension of corporate social security taxes plus cash subsidies to hire the long-term unemployed.

LOOSE MONEY Pressure on Bank of France to lower interest rates is now likely. A slightly weaker franc probable.

NEW TAX RATES The 56% marginal rate on individual incomes will be cut. But the value-added tax will probably rise from 18.6% to 20%—"temporarily."

RETREAT FROM EUROPE Job creation gets priority over the single currency. A bid to recoup some powers given to the European Commission should occur.

...AND HIS ADVISERS

ALAIN JUPPE Age 49. Currently Foreign Minister, but the likely Prime Minister for Chirac. A master of tact, he'll favor pro-Europe policies in the Cabinet.

PHILIPPE SEGUIN Age 52. Right-wing president of National Assembly. A Gaullist who favors state intervention in the economy and opposes monetary union.

ALAIN MADELIN Age 49. Minister for small industry. A free-marketer, if made Finance Minister, he would speed privatization and pension reform.

PIERRE LELLOUCHE Age 44. Chirac's city-hall cohort. A possible Foreign Minister, he is pragmatic and outspoken.

DATA: BUSINESS WEEK

For now, Europe will have to take that on faith—just as French voters must hope that Chirac's program will produce genuine change. The markets have already given one sign of confidence: The French franc has not cracked since the presidential election. Now, Chirac must sustain this confidence by proving he can manage a troubled country.

By Stewart Toy in Paris, with Linda Bernier in Brussels and Bill Javetski in Frankfurt

COMMENTARY

By Bill Javetski and John Templeman

WHY EUROPE SHOULD BE BANGING ON JAPAN'S DOOR, TOO

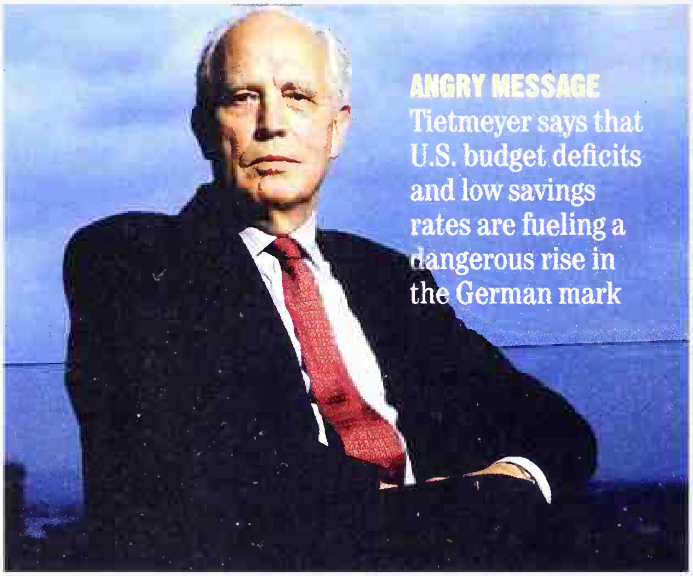
Nobody has ever accused Hans Tietmeyer of being shy. Lately, the president of the German Bundesbank has been even blunter than usual in blaming the Clinton Administration and Congress for the dollar's 13% decline against the German mark since January. For Tietmeyer, the U.S.'s low savings ratio and high budget deficits are fueling the mark's rise and threatening Europe's economic recovery.

There's no doubt that the U.S. needs to get its economic house in order. But Tietmeyer's blast was ill-timed. He should instead have been making common cause with Washington to pressure the Japanese to open their markets and correct their trade imbalance with the world. That's because Japan's trade policy is driving up the mark even as it batters the greenback.

DOWNWARD SPIRAL. Make no mistake, the crossfire between the dollar and the yen is wounding Germany and the rest of Europe. As trade tensions push the dollar to historic lows against the yen, money traders are diving for cover into the world's only other reserve currency—the mark. "If you feel you have to get out of the dollar, where's the alternative?" says Rolf-E. Breuer, a managing director at Deutsche Bank in Frankfurt. "The strength of the mark is the reflection of the dollar-yen struggle."

The rising mark immediately hits the bottom line of German manufacturers like Daimler Benz Aerospace, which has to price its planes and helicopters in dollars while paying its workers in marks. But that's just the beginning of the downward spiral. As global money managers pile into marks, they pull out of weaker European currencies, from the Spanish peseta to the Italian lira to the British pound. That's a double whammy for German exporters, who must then struggle to compete against ever-cheaper products from such European powerhouses as carmakers Fiat and Volvo and British chemical giant Imperial Chemical Industries PLC.

The irony is that the yen-dollar crisis is having a far greater impact on Europe than on the U.S. This currency turmoil will eventually come back to haunt most of Europe in the form of higher inflation. In this chaotic atmosphere, Europe's hopes for monetary union slip further and further into the future. Meanwhile, there is no sign in the U.S. that the falling buck is about to spark a runup in inflation, and American exporters are picking up market share globally.



ANGRY MESSAGE Tietmeyer says that U.S. budget deficits and low savings rates are fueling a dangerous rise in the German mark

Policymakers in the Old World know the Japanese will not voluntarily open their markets enough to bring down the yen and thus halt the mark's rise. "Japan has been in surplus a long time, and there's no likelihood it will reduce the surplus by its own measures," says a senior German official. Some Europeans are already on board with the idea of tougher measures. "It's time to speak up and take action," says Klaus-Peter Müller, a managing director at Commerzbank. "The Japanese are persistent and tough. We need to be the same."

Here's what the Europeans should do. They should lend their voice to the American push for market-opening measures in Japan. Europe's weight in this dispute could be critical in bending Tokyo's bureaucrats to open their economy and resolve currency misalignments. Then the Europeans must be prepared to back up U.S. actions with their own retaliatory tariffs against Japanese autos, auto parts, and electronic components. They should even remind Japan how adept the Europeans can be in slowing imports to a trickle. After all, it was the French who more than a decade ago forced many Japanese products to pass through an inefficient customs post in out-of-the-way Poitiers.

FIGHTING. European leaders have been leery about jumping into what has been a fight between the U.S. and Japan. But this dispute is lurching toward a full-blown trade war that will spare few of the developed economies. Yet European negotiators have so far quietly let the U.S. do the fighting, knowing Europe will benefit from any new barriers to Japanese products in the U.S. as well as any openings in Japan. Already German carmakers such as Mercedes-Benz and BMW foresee sales gains in the U.S. should sanctions block Infiniti and Lexus imports.

The risk is that such noninvolvement lets the Japanese play the Europeans off the Americans. And Tietmeyer's comments about poor U.S. domestic policy encourage the Japanese to claim that Americans have only themselves to blame for the dollar's anemia. Europe's leaders have to change their rhetoric, if only out of self-interest.

Javetski and Templeman cover European economics.

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MEXICO

PINATAS ON 18 WHEELS

Truck-jackings in Mexico are way up, outraging U.S. companies

It's happening all too often in Mexico: A trailer-rig packed with hundreds of thousands of dollars' worth of imported U.S. merchandise is pulled over by armed men claiming to be police for a "routine" cargo inspection. The "police" then throw the driver into the trunk of a waiting car. While they drive him around for a couple of hours, accomplices steal the cargo and, sometimes, the truck.

Shippers say truck hijackings in Mexico have skyrocketed since devaluation of the peso last December triggered an economic crisis. This surge in highway crime is a big problem for business because 85% of the trade between the U.S. and Mexico is carried by truck—and traffic is way up, thanks to the North American Free Trade Agreement. The Mexican police say 270 truck hijackings were reported on federal highways alone in 1994, and there were many more on state and local roadways. An estimated several hundred million dollars' worth of goods were lost. "If hijackings continue, they are going to jeopardize the successful entry of some companies into the Mexican market," says John Rodriguez, Levi Strauss & Co.'s security chief for the Western U.S. and Mexico.

Faced with big losses, many companies are beefing up security at their Mexican operations. Sears de México, which has 47 retail stores across the country, brought in former FBI agent James R. Sutton last September to be its security chief. Last year, Sears suffered 49 truck hijackings, losing merchandise worth more than $2 million. In one ill-starred week, Sears lost three trucks to bandits posing as policemen. "We get the double whammy—not only are we targeted when we bring in goods from the U.S., we also get hit when we distribute the merchandise to stores," Sutton says.

The robbers are particularly fond of blue jeans because they can sell them quickly at thriving thieves' markets. The highwaymen are also helping themselves to pricier items, such as CD players, TVs, and computers. Sutton and others say they suspect that crooked customs agents and drivers alert the bad guys to juicy targets.

Insurers are being hit hard. Bruce Healey, an assistant vice-president at insurance broker Marsh & McLennan in Mexico City, says the situation "is bordering on catastrophic." He has handled claims on three stolen shipments worth more than $1.8 million in the last three months. One brazen band of thieves ripped off a truckload of industrial kitchen equipment and then had the nerve to call the affected company to find out how to price the cargo. Shippers say that some insurers have doubled their rates. Others are balking at writing Mexican policies.

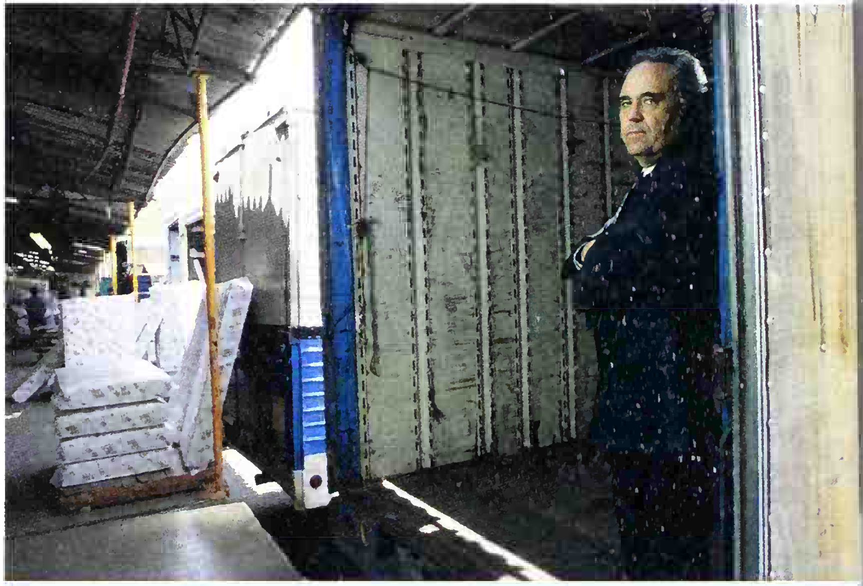
In the meantime, security expe
are doing what they can to cut the r
of theft. Sutton has reduced hijacki
to just two in the past two mont
through such measures as doing ba
ground checks on drivers and getti
rid of those with criminal records
other black marks. He's also orderi
drivers to take expensive but safer
highways. Recently, Sutton eliminat
the familiar Sears logo from the sides
many delivery trucks. "We found th
the advertising value was just not wo
the risk," he says.

"BIG BUSINESS." But the real key
stopping the hijackings is getting t
police to do their jobs. There's wi
spread suspicion that the police are
cahoots with the hijackers. "The pro
lem right now is a bad economic situa
tion, poor law enforcement, and prob
ably a lot of police involvement in th
hijackings," says a U.S. official. "Hi
jacking has become big business."

But federal highway police chief An
tonio Arizpe Mireles denies widesprea
police involvement. "I'm not saying th
3,000 men we have are incapable o
committing a crime," he says. But suc
charges are unfair without concrete ev
idence, he maintains.

Sears and Levi Strauss are spear
heading a corporate security lobby tha
has met with government officials, in
cluding the attorneys general for Mexi
co City and the state of Mexico, wh
promised to help. But security agent
say high-level promises mean little i
underpaid local law-enforcement officer
find it more lucrative to skirt the law
than enforce it.

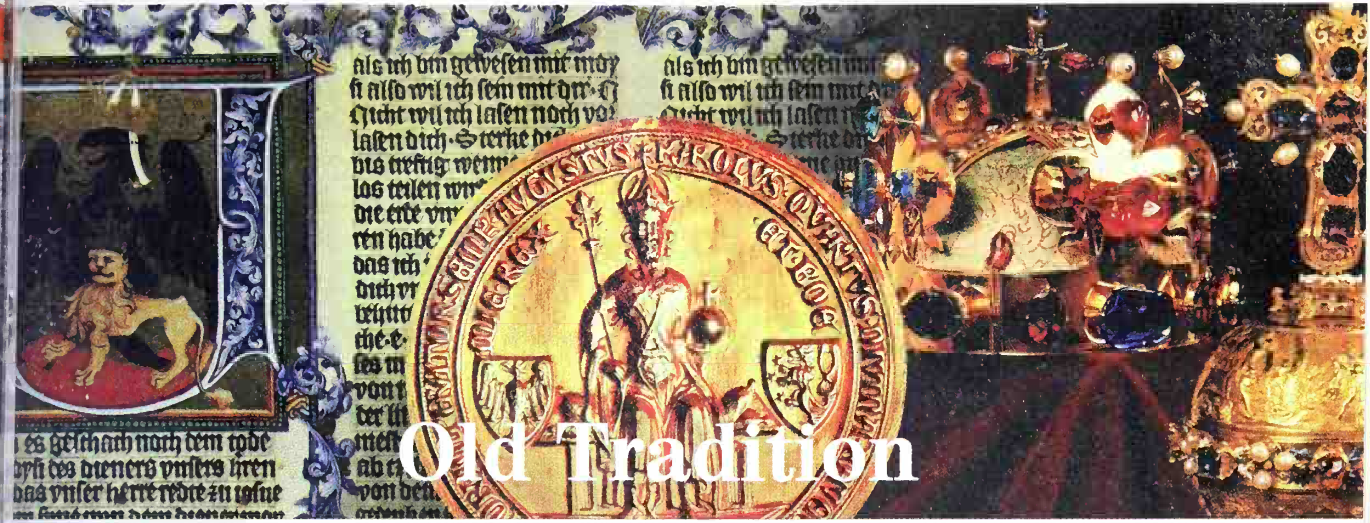
By Geri Smith in Mexico City



BANDIT BLOCKER: *Sears brought in ex-FBI agent Sutton to beef up security*

KEITH DANNEMILLER/SABA

The rampant hijackings could "jeopardize the successful entry of some companies into the Mexican market," says Levi's Rodriguez



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nd Manager
New Thinking

HE CZECH REPUBLIC ['chek ri'pablik] • Premier Václav Klaus; opulation of 10,5 million; stable government; parliamentary democracy; alanced budget; GDP 2,5%; stable exchange rate 1 USD = 27,8 CZK; low nflation 10%; low unemployment 3,1%; high foreign currency reserves SD 8,4 billion; low foreign debt USD 9,1 billion; average monthly salary 000 CZK; PSE market capitalization USD 12,4 billion; 80% economy in rivate hands; skilled and educated work-force; convertible currency; free epatriation of profits; tax treaties: U.S.A., Netherlands, Cyprus and others History: from 5th to 6th century arrival of Czech tribes; from 9th to 10th entury establishment of the Czech state, 1355 Charles IV, Roman mperor and King of Bohemia; 1348 Charles University of Prague founded; 918 proclamation of Czechoslovakia; 1968 Prague Spring, 1969 proclaation of the Czech Republic; 1977 Charter 77; 1989 Velvet Revolution, eginning of democratic changes in society; 1990 the Czech and Slovak ederative Republic; 1990 establishment of HC&C, The Bill of Rights; 992 first wave of privatization; 1993 dissolution of Czechoslovakia nd establishment of the independent Czech Republic; 1994 signature f Partnership for Peace agreement; affiliated member of EU; compleion of second wave of privatization; municipal elections confirmed zech citizens strong support for market economy in November 1994.

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Harvard Funds

The Czech Republic

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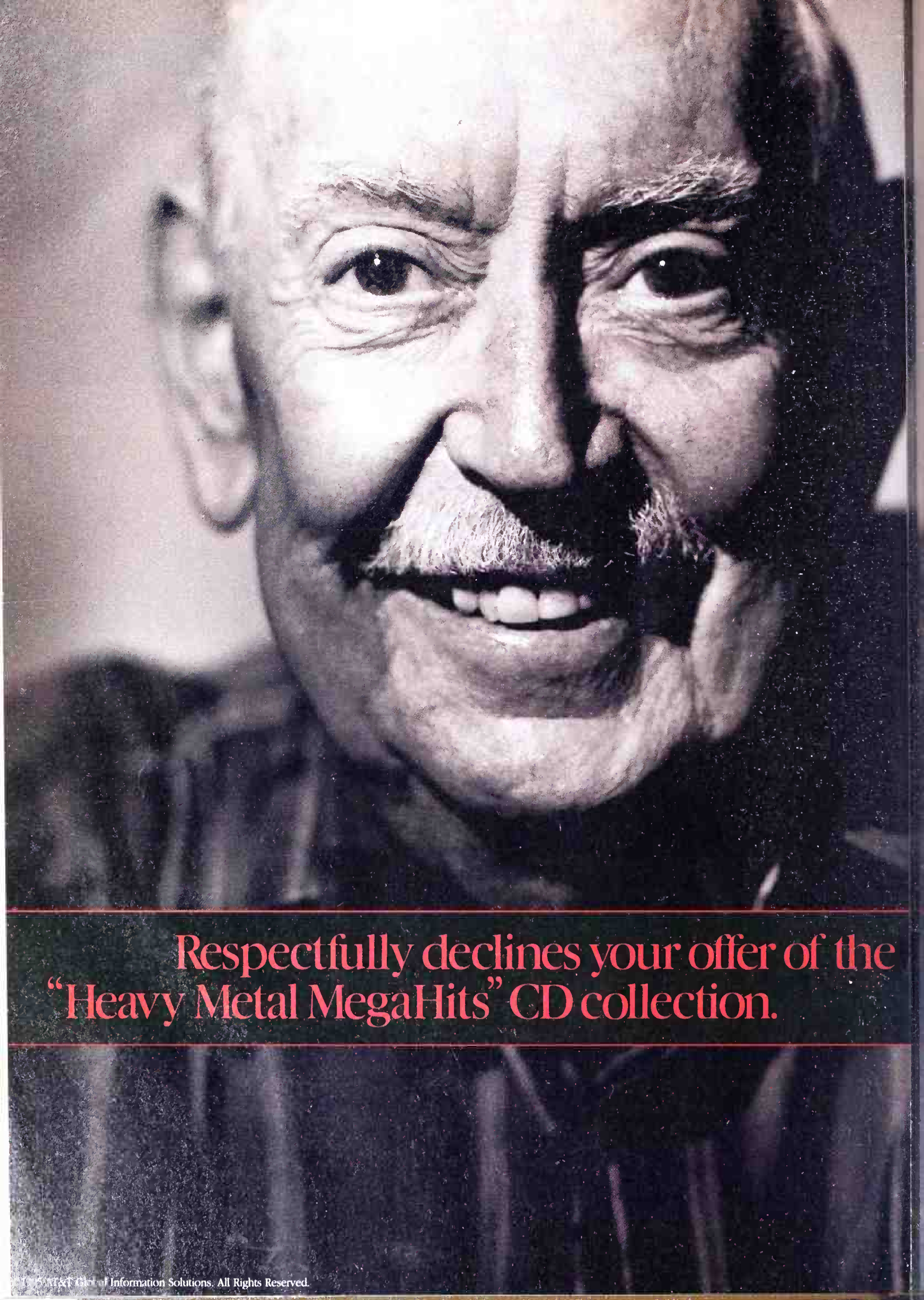
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EDITED BY STANLEY REED

IN MOSCOW, THIN BORSCHT FOR CLINTON

It was a display of militarism Moscow hadn't seen in years. As late-model jet fighters zoomed overhead, tan and green tanks rumbled down nine-lane Kutuzovsky Prospect. There were lots of red flags with hammers and sickles.

The military parade seemed to give a big boost to the morale of a public whose pride has been hurt by the collapse of the Soviet Union and the hardships that followed. When a flight of helicopters thundered above, a plump middle-aged woman called proudly to her young son: "Look, Misha. Ours."

President Bill Clinton was in Moscow for the celebration of the 50th anniversary of the defeat of Adolf Hitler as well as a private session with President Boris N. Yeltsin. This was Clinton's first opportunity to see the more confident but also somewhat more scary Russia that has been taking shape over the past few months. What he encountered was a country that still wants a constructive relationship with the U.S. but is no longer willing to follow Washington's dictates as it did just after the Soviet Union's collapse.

"A WIN-WIN MEETING"? *Not exactly*

APPLEWHITE/AP/WIDE WORLD

MORE ASSERTIVE. What's happening in Moscow is not terribly surprising. Russia lost the Cold War to the U.S. A few years ago, with its economy a shambles, its leaders thought they badly needed U.S. help and had little choice but to heed Uncle Sam. Now, with its economy stabilizing, Russia is once again growing more assertive—as Japan and Germany have in the decades following World War II.

The good news is that there is now much less chance of a total collapse in Russia, with the frightening implications that might have. The bad news is that the Russians are going to throw their weight around in ways that could be troubling or even threatening to the West, as in Chechnya.

Yeltsin did give Clinton some small gifts to take home. He agreed to modify Russia's controversial nuclear reactor de with Iran so as to make it harder for the Islamic republic produce nuclear weapons. He said he would delay transfer the reactors pending a review by a joint U.S.-Russian grou

But Clinton's claim that this was a "win-win meetin seems exaggerated. He did not get Yeltsin to scrap the Ir deal outright. That could prompt U.S. Republicans to move kill some $788 million in aid to Russia. Yeltsin also declined sign off on NATO's admitting former Warsaw Pact countries though he did agree to participate in Cli ton's Partnership for Peace. There's al little sign that Clinton made any headwa in getting Yeltsin to call off his troop in Chechnya.

Yeltsin seemed eerily out of touch. A a joint Kremlin press conference, Yelts told incredulous reporters that in Chec nya "there are no hostilities there, ther is no military there." As he spoke, wi services were reporting that Russian for es were shelling a village southeast Grozny, the Chechen capital.

But the news on the economy wa very positive for Clinton. Privatization thriving. Inflation rates continue thei downward swing, while recovery is a real possibility nex year. Russia is fast developing the sort of regulations and f nancial markets that could underpin an economic power. Say U.S. Treasury Secretary Robert Rubin: "If these things ca be accomplished, the potential for attracting foreign capital i enormous."

There's a chance that Russia's undeniable economic progres will push forward political reform and strengthen foreig links, thus holding Russia's traditionally aggressive tendencie in check. But it's more likely that relations between Russi and the West will be turbulent for the next few years.

By Peter Galuszka, with Patricia Kranz, in Mosco

GLOBAL WRAPUP

QUEBEC'S DEBT MESS

▶ Quebec Finance Minister Jean Campeau, acknowledging that his province's spiraling debts are "a veritable cancer," recently unveiled plans for sharp spending cuts and higher taxes. To some critics, that serves as an indication that Prime Minister Jacques Parizeau can no longer afford—politically or economically—to push secession from Canada.

J. Anthony Boeckh, chairman of Montreal-based BCA Research Group, notes that Quebec's $80 billion foreign debt and deficit—equal to 11.6% of the gross domestic product—rank the province alongside many developing economies and "nearly bankrupt" industrial countries. Boeckh warns that in order to persuade global investors to support independence, Parizeau would have to get Quebeckers to agree to "the unthinkable"—a drastic drop in living standards similar to the one Mexico has been experiencing since the peso crisis. Otherwise, Quebec might face massive capital flight and a "catastrophic" currency devaluation.

SO MUCH FOR ISOLATING IRAN

▶ Just a few days after President Clinton announced a beefed-up trade embargo on Iran, Turkey has inked a huge deal with the Islamic republic. Under the $20 billion agreement, Iran will supply Turkey with natural gas for 23 years. Although the deal has been in the works for a long time, the timing surprised observers because Turkey is a NATO member and a close ally of the U.S. Turkey's move seems yet another indication of how difficult it will be to isolate Iran.

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Striking A Positive Chord For Business

Our nation's lawmakers and opinion leaders have begun singing a different tune. Less government regulation. More initiatives for business to expand and create jobs. Emphasis on self-sufficiency, entrepreneurship. Cutting waste in the name of efficiency.

For corporate America, it's music to our ears.

It's also a familiar sound for the intermodal industry. Because what so many of today's government leaders are preaching echoes what intermodal companies have been practicing for nearly two decades.

Deregulation, for example. Intermodal is a child of the sweeping transportation reform in the 1980s, which opened the door to competition throughout the industry. For a government striving to reduce regulations and international trade barriers, intermodal can serve as a model for success. The level playing field in our industry has stimulated all transportation providers to improve service, develop technologies, and compete aggressively to gain market share.

Entrepreneurship? Without the benefit of federal subsidies, intermodal helped reinvent the nation's freight transportation, by creatively blending rail and containerized shipments with traditional motor carrier transport. The result: for American shippers, a fast, efficient, and economical transportation alternative networked door to door, coast to coast; for intermodal, consistent double-digit growth, making us the fastest growing segment of the transportation industry.

Intermodal companies have also set an example for streamlining operations, by trimming the fat from operating budgets. In this process we've worked closely with our customers and business partners to create service packages that maximize resources, to cover a multitude of needs.

As Washington awakens to the realities of the '90s, it's not surprising that so many lawmakers and federal officials are viewing intermodal as a key factor in America's economic future. Intermodal transportation is at the core of the Department of Transportation's recent reorganization plan, and a centerpiece of national transportation policy in the Congress.

Intermodal is also environmentally sound. It saves fuel. It protects our highway infrastructure from further decay. It enables our transportation system to more than hold its own in worldwide competition.

Is Capitol Hill taking a page out of intermodal's songbook? We'd like to think so. With so much at stake for our economy and our citizens, it's time for business and government to work in harmony.

CSX
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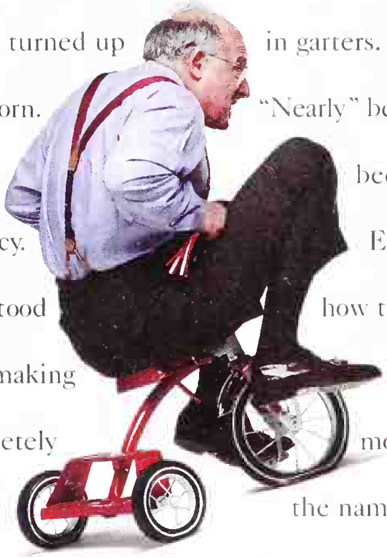
WHY YOU CAN'T MEET EVEN SIMPLE OBJECTIVES WITH A FLAWED EXECUTION.



*I*n 1823, Charles Mackintosh took a little-known material that artists used to rub out pencil marks, spread it between two layers of cloth, and made the world's first waterproof coat. Soon this new material, known as rubber, turned up in garters. Suspenders. Then handmade shoes. An industry was nearly born. "Nearly" because when the rubber goods were exposed to extreme cold, they became hard and stiff. And in heat, they assumed a sticky consistency. Even an unpleasant aroma. It was 20 years before someone understood how to properly make a raincoat. Or a pair of rubber shoes. Rubber making had to be entirely reinvented. Its fundamental components completely modified. The person who succeeded in making it work was a man by the name of Charles Goodyear.

A similar reassessment is taking place today in corporate America. Companies are taking a careful look at their transportation systems and finding the old methods lacking. It's something to think about when examining yours. Is it working as efficiently as it should? Or is it based on the belief that transportation is a fixed cost—a concept that's inherently flawed?

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Special Report

HOT GROWTH COMPANIES

They're quick, creative–and have outpaced bigger rivals

Fore Systems Inc. was the quintessential risky startup. With just $100,000 from savings, four researchers from Carnegie Mellon University launched the company five years ago based on a simple notion: The high-speed networking switches being developed for telephone companies could also be used to up the capacity of smaller computer networks that link workstations and PCs. "Our biggest concern," recalls Chairman and CEO Eric C. Cooper, 36, "was why wasn't anyone else doing it?"

While others were on the sidelines, Fore Systems used the new technology, called asynchronous transfer mode (ATM), to build a big lead in the market for switches and the accompanying software that help run high-speed, flexible local-area networks. With networked computing taking off, revenues for the fiscal year ended March more than tripled, to $75.6 million. Profits were up over 250%, to $7.4 million.

TEAMWORK. Its mix of top-flight growth in sales and earnings plus torrid return on capital helped land Fore Systems the No. 4 spot on BUSINESS WEEK's Hot Growth list. Fore has more than 60% of the $100 million market for ATM switches. But Cooper and his band of techies will have to fight hard to stay on top: Rivals such as Cisco Systems Inc. and 3Com Corp. are gearing up to take a bigger share as ATM edges out the old Ethernet technology for local networks. To meet the challenge, Fore is rolling out new switches that can transmit data ever faster, while tackling new markets through deals with big players such as Northern Telecom Inc. "There are more people entering their market," says Needham & Co. analyst G. Arjavalingam. "But it's clear Fore will be the dominant supplier of this technology for at least the next few years."

Quick. Opportunistic. Creative. Those are the traits linking the companies on BUSINESS WEEK's 1995 Hot Growth list. Like Fore Systems, the 99 other companies have outpaced far heftier rivals by getting there first and doing things better. Even as 1994's strong economy gave Corporate America its most sizzling year in a decade, these tiny dynamos continued to race to the head of the pack. Over the past three years, sales for the companies on the list grew an average of 66%, compared with 5% for the Standard & Poor's industrials index. Earnings jumped 164%, compared with the S&P's 27%, while return on invested capital hit 30%, against 10%.

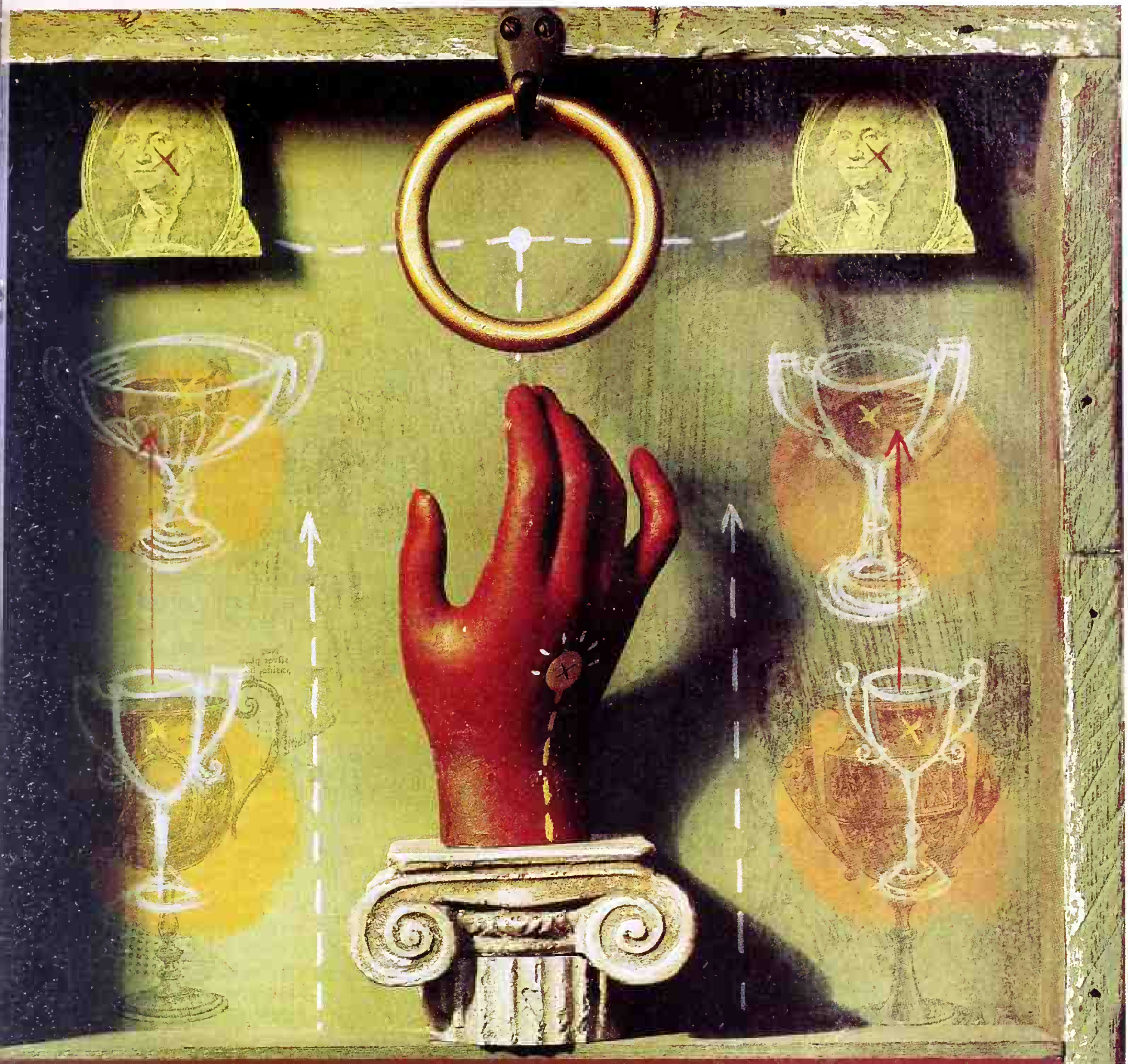
Niches in high-tech and health care are helping some dodge the slowing economy

Fore Systems isn't the only Hot Growth company capitalizing on technology. As personal computer sales boom, demand for wireless and other telecommunications technology soars, and computers spread to every business, 25 of the 100 companies on the list were software- or computer-related, while five were in telecommunications. "More technology companies were meeting or exceeding earnings estimates than I've seen in years," says Jack LaPorte, portfolio manager of the T. Rowe Price New Horizons Fund, a small-company mutual fund.

Like Fore, companies that successfully tapped into the shift to networked computing were particularly hot. NetManage Inc. (No. 15) develops programs that run local-area networks. Cambridge Technology Partners Inc. (No. 12) helps companies design large-scale integrated computer systems. Plenty of profitable prospecting is also being done in health care. Employee Solutions Inc. (No. 9) helps small companies lower health-care and workers' compensation costs by bundling their staffs together to negotiate rates with insurers and managed-care providers. Growing fears of transmittable diseases helped Safeskin Corp. (No. 10) boost sales of its specialized latex medical gloves by 70.2% annually since 1991.

Of course, plenty of companies made the list by mining untechie veins. Despite a rather tough retail climate, Urban Outfitters Inc. (No. 76) carved out a lucrative perch by catering to

LE KNOUSE BRAIMAN/BW



GARY TANHAUSER

Hottest of the Hot

SALES

	MILLIONS OF DOLLARS*
ROPER INDUSTRIES	$148.5
ELECTRONICS FOR IMAGING	143.4
BTG	142.4
APOLLO GROUP	142.4
ST. JOHN KNITS	137.0

*Latest four quarters

EARNINGS

	MILLIONS OF DOLLARS*
FTP SOFTWARE	$25.9
ELECTROGLAS	24.9
ELECTRONICS FOR IMAGING	24.3
ZEBRA TECHNOLOGIES	23.5
PHOENIX TECHNOLOGIES	21.4

*Latest four quarters

MARKET VALUE

	MILLIONS OF DOLLARS*
FORE SYSTEMS	$869
NETMANAGE	723
FTP SOFTWARE	613
ZEBRA TECHNOLOGIES	552
ELECTRONICS FOR IMAGING	546

*As of Apr. 28

SALES GROWTH

	AVERAGE ANNUAL RATE*
RETIREMENT CARE ASSOCIATES	688.3%
NETMANAGE	412.4
FORE SYSTEMS	318.1
UNICOMP	281.4
MEDIA ARTS GROUP	169.1

*Latest three years

EARNINGS GROWTH

	AVERAGE ANNUAL RATE*
RETIREMENT CARE ASSOCIATES	1139.3%
JALATE	915.9
NETMANAGE	520.8
UNICOMP	482.4
STERIS	458.1

*Latest three years

PROFITABILITY

	AVERAGE ANNUAL RATE*
TREND-LINES	74.2%
CMG INFORMATION SERVICES	73.6
ROCK BOTTOM RESTAURANTS	70.0
HAPPINESS EXPRESS	68.2
INSO	62.1

*Latest three years' return on invested capital

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES

the unglamorous fashion tastes of Generation Xers. And the No. 1 spot goes to Happiness Express Inc., a New York-based toymaker that scored big with kids' accessories based on TV characters such as the Mighty Morphin Power Rangers.

COOL MARKET. Much of the fuel for growth last year came from a booming economy. Some saw sales explode thanks to the healthy growth of big corporate customers, while others created robust demand carving out new niches ahead of big rivals. Can they keep it up? A slowing economy may make it hard for some small companies to sustain heady growth. "It's going to be a much tougher environment," warns LaPorte.

Special Report

Wall Street has already soured on some small-company stocks. Even Hot Growth companies that delivered eye-popping results last year often trailed bigger brethren in the market. Shares of stocks on this year's list are currently trading at an average of 16% below their 52-week highs, while the average S&P industrial stock is trading at 8.9% below its 52-week high. The reason: For much of 1994, investors favored big cyclicals as the surging U. S. economy fueled robust earnings for auto makers, chemical producers, and the like. "The wind was clearly in our face," says James P. Goff, portfolio manager of the $1.5 billion Janus Venture Fund, a growth company fund.

That stiff breeze also cooled initial public offerings. After setting a fiery pace in 1993 with more than $57 billion raised, new public companies raised just $34 billion in 1994. In 1995's first quarter, less than $4 billion in equity has been sold through IPOs. Analysts say that reflects the general swing toward big-cap stocks, though as the market heats up, some pect IPOs to do likewise. Start-up funds still abound: cording to *Venture Capital Journal*, $3.8 billion in vent capital was raised in 1994, up from $2.5 billion in 1993.

And last year's ill wind may yet blow investors so good. T. Rowe Price's LaPorte believes that many sm companies are selling at bargain prices. LaPorte measures t richness of small-cap stocks by comparing the average pri to-earnings ratio of the stocks in his portfolio with the p-e tio of the S&P 500. Today, LaPorte's stocks are trading in t lower half of their historical range relative to larger-compa stocks. That, he says, leaves plenty of room for an uptur

Indeed, small companies able to dodge the slowing eco my may soon be back in vogue. For one thing, a slowdown growth will first hurt the earnings of the cyclical business that the market has favored. And if Congress does pass capital-gains tax cut, growth stocks stand to be big benefi aries. "The flow of funds in the market is rushing back growth," says Robert E. Stansky, portfolio manager of t $3.7 billion Fidelity Growth Company Fund. "Money is mo ing out of cyclicals and into fast-growing small companies.

Of course, these fleet-footed little racers always run the ri of stumbling (page 80). Some could prove too dependent one or two products or customers and get tripped up changing tastes or shifting markets. Others, cautiously threa ing their way among the elephants, may get squished. But t smart, the lucky, and the swift on BUSINESS WEEK's H Growth list stand a good chance of outmaneuvering the tita today—and joining their ranks tomorrow.

By Amy Barrett in Washingt

HAPPINESS EXPRESS

HAPPINESS IS A HOT TOY

It was three in the morning when Joseph A. Sutton, CEO of Happiness Express, first learned that his wife had put an alarm in their Mercedes. "Stand back," screeched the alarm, when a cat clambered over the car. "You are too close to the vehicle."

But rather than losing sleep, he turned his nocturnal wake-up into a new toy: A small kids' doorplate decorated with characters from the popular TV show, it bleats out *"Stand back! This room is protected by the Mighty Morphin Power Rangers!"* when intruders venture close. Within months, the doorplates hit the market—and together with Power Rangers gloves introduced in mid-1994, they've propelled Happiness Express forward since. With Power Rangers products accounting for 75% of sales, revenues for fiscal 1995 swelled 50%, to $60 million, while earnings rose 10%, to $7.5 million. That earned Happiness the No. 1 spot on BUSINESS WEEK's 1995 Hot Growth Company list.

Since Sutton, 42, and his brother, Ike, Happiness Express' 46-year-old COO, founded the company in 1989, they've carved out a niche producing toys and accessories based on popular licensed characters. Longtime independent sales reps for small toy companies, the two figured they could do better on their own. By 1993, the brothers built a portfolio ranging from Walt Disney Co.'s Little Mermaid to TV's Simpsons. But it wasn't until a flashlight decorated with Barney, PBS' purple dinosaur, scored with kids that Happiness hit paydirt. Barney-related gadgets brought 55% of fiscal 1994 sales. When Barney fell below 1% a year later, Power Range picked up the slack.

ROBIN THOMAS

MIGHTY MORPHIN WITHDRAWAL? THE SUTTONS ARE SPREADING THEIR BETS

And that raises a whopper of question: What will replace Pow Rangers when they fade? CEO Sutto says fears are misplaced. His strat gy is to create products based o lots of licenses, then gear up pr duction when one hits big: "We'v proved to the industry that we kno how to go where the action is."

RIGHT STUFFING? Still, Wall Street i worried. Since December, the stoc has fallen from its high of around 1 to 12. "Every toy company that ha derived more than 50% of its profi from one product has gotten into financial difficulty when that produc cools off," says analyst Sean F McGowan at Gerard Klauer Mattison & Co. He expects earnings t fall 33%, to $5 million in fiscal 1996

To avoid that fate, Sutton is rapidly diversifying. The CEO has lure executives away from big rivals such as Hasbro Inc. and Tyco Toys Inc. and he's launching new product lines.

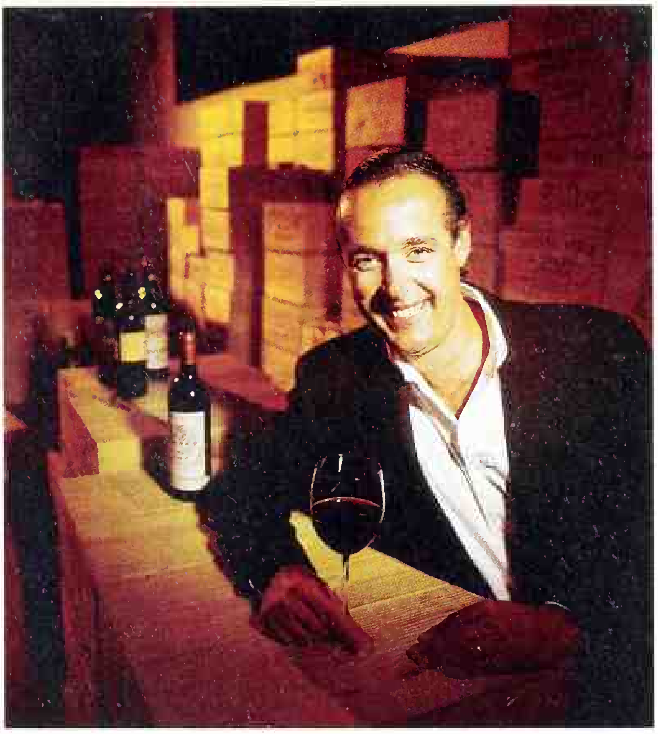
And a whole new slew of licensed products is coming, including stuffed animals based on Nickelodeon's TV series *AAAHH!!! Real Monsters*. "We have a lot of things going on," says Sutton. "You can't grow unless you have a lot of different oars in the water." That's true—as long as the stream Happiness is rowing doesn't run dry.

By Lori Bongiorno in New York

GEERLINGS & WADE

IT WAS A VERY GOOD YEAR

Most customers who get lousy service from a retailer just take their business elsewhere. But former oopers & Lybrand accountants Huib . Geerlings and Phillip D. Wade turned eir bad experience with a liquor store to a fast-growing small company. After aiting three months for a case of wine be delivered, they decided they could ll wine more efficiently themselves. o they started Geerlings & Wade, now e nation's largest direct-mail wine arketer and No. 7 on BUSINESS WEEK's ot Growth list.



CEO WADE. IN '94, PROFITS FOR THE DIRECT MARKETER REACHED $1.3 MILLION

Selling wine y mail is hardly ew. But Geerngs & Wade deeloped a formula that no one in the 5 billion U.S. wine trade matches. It arkets wines in all price ranges hrough mass mailings and an 800 numer. Last year, sales swelled 64%, to 20 million, while profits more than uadrupled, to $1.3 million. "We've been bsolutely fanatical about delivering on ime and with flawless execution, and t's working," says Wade, the 38-year-old resident.

ORE CONTROL. The partners started he business in 1987 by linking up with n acquaintance of Geerlings' who ran he Wine Exchange, a Connecticut mailrder wine merchant owned by a Dutch company. Initially, they used the Wine Exchange's marketing materials and wine inventory to sell in Massachusetts.

But the arrangement fell apart in 1988, when Geerlings & Wade wanted room to expand and more control over delivery schedules. The Wine Exchange sued to stop them from competing. The suit was eventually settled, and Geerlings and Wade, who had already put $180,000 into their business, kept going by raising another $100,000 from family and friends.

When Geerlings & Wade went out on its own, sales exploded. Prospecting for customers from subscriber lists for *Gourmet*, *The Economist*, and other publications, it carved out a niche selling wines ranging from $5 California chardonnays to $100 bottles of Chateau Margaux. Last year it raised $11 million in a public offering that valued Geerlings' and Wade's initial investments at a combined $14 million. The company, based in a warehouse in Canton, Mass., now operates in 20 states.

The question now is whether the company can stay out in front in a business wide open to competitors. Mitchel H. Sonies, an analyst with Brean Murray Foster Securities, thinks high barriers to entry will slow rivals. A key obstacle: complying with a patchwork of state regulations on liquor sales—a legacy of Prohibition.

The real threat to Geerlings & Wade's growth may come when it has penetrated all 30 states where mail-order wine sales are legal. But Wade says that his firm has plenty of room for expansion through acquisitions, possibly of catalog companies selling oenophile paraphernalia. Geerlings & Wade can only hope that, like fine wine, its results will keep improving with age.

By Geoffrey Smith in Boston

WONDERWARE

ANIMATED AUTOMATION

It was supposed to be a temporary name: "Wonderware." Founder Dennis R. Morin typed it into his company's incorporation documents in 1987 when he couldn't think of something catchy that included "integrated" or "micro." Now, with Wonderware Corp.'s cartoon-like logo emblazoned on a building in an otherwise anonymous industrial park in Irvine, Calif., the company still seems a little light-hearted. Indeed, more serious competitors' ads sneer at Wonderware's "fun-to-use" software.

NONFAT
MILK

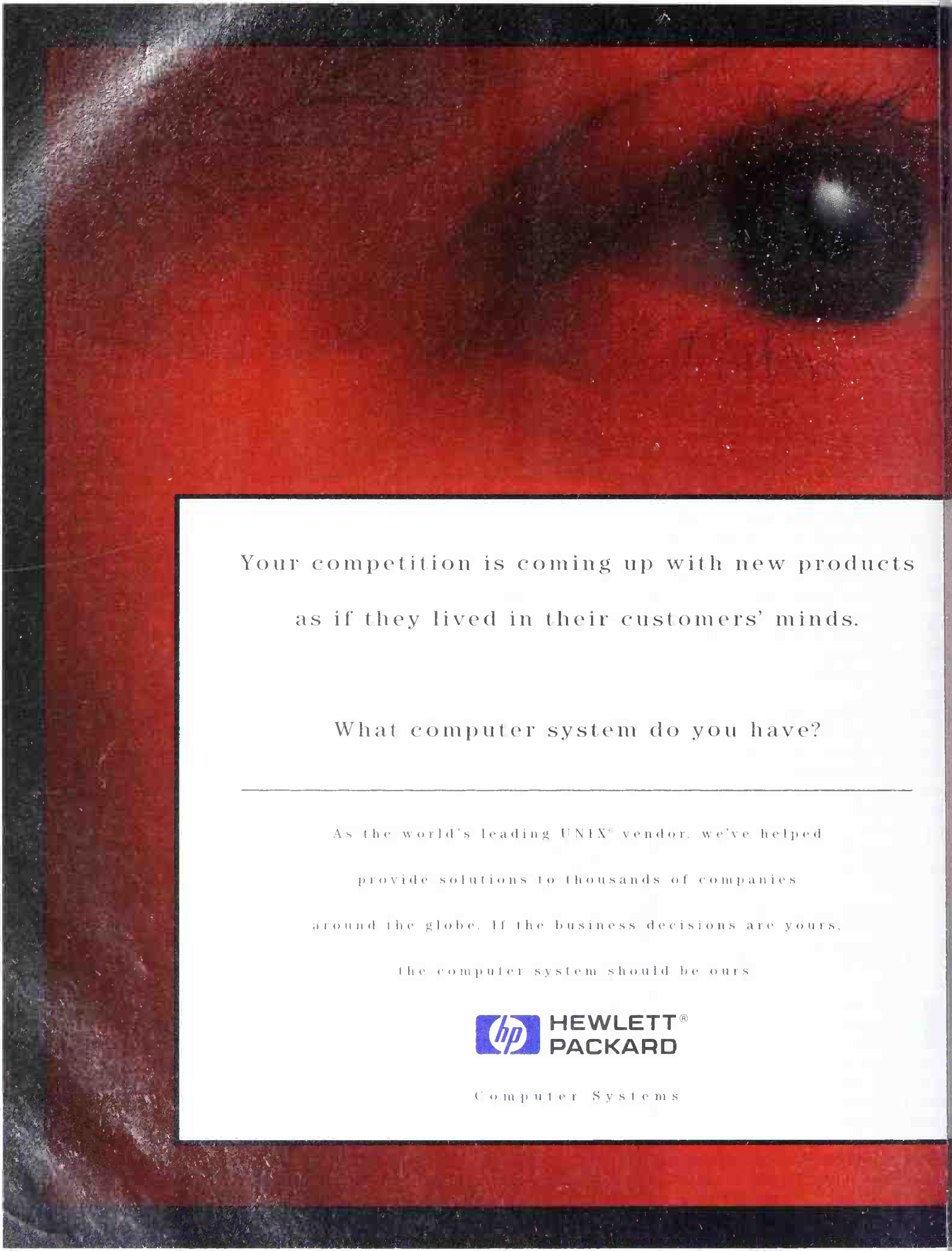
CASH COW: CEO MORIN BRINGS A LIGHT TOUCH TO HEAVY INDUSTRY

Wonderware is no joke, though. It's a serious player in the mushrooming market for industrial-automation software, and No. 38 on BUSINESS WEEK's Hot Growth list. College dropout Morin started Wonderware when he was laid off from his umpteenth job, the last one designing software. "I'd never been promoted; I'd never held a management position," he says. "I decided that the only way to get to the top of the corporate ladder was to start there."

PINBALL WIZARD. Morin's inspiration came from an early computer game called *Pinball Construction Set*. Players could design their own pinball machines by placing flippers and bumpers where they wanted. Morin wondered: Why not build the same flexibility into the engineering software used to control valves and temperature gauges in factories?

That insight led to the creation of Wonderware's InTouch industrial-auto-

PHOTOGRAPHS BY RICHARD SCHULTZ, MICHAEL GRECCO



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mation software. While other industrial software required each machine to have its own display panel and individual controls, InTouch allows engineers to "watch" the workings of the entire factory through on-screen animations that continually mimic what's going on. As they watch, engineers can change manufacturing processes instantly. Most important, InTouch works with every piece of equipment on the factory floor. So, like the pinball player who can move his on-screen flippers, InTouch users can quickly rejigger controls factorywide.

Other signs of InTouch's pinball parentage include software commands that let users add light touches to their screens, such as birds coursing their way over factory equipment. But don't mistake whimsy for lack of business savvy: By designing his InTouch system for Microsoft Corp.'s Windows instead of DOS, Morin gained a two-year lead on rivals. Fueled by its ability to run on off-the-shelf PCs, sales have zoomed. Revenues increased 67% last year, to $35.7 million, as profits doubled, to $7.6 million. For 1995's first quarter, net income rose 75%, to $2.6 million, on revenues up 62%.

Now, Morin, 49, aims to expand Wonderware at 60% per year, to a half-billion-dollar company within five year "Our strategy is to supply all the sof ware components you'll need to aut mate a factory," he says. More pro ucts are already in the pipeline, ar Morin is also busy working on the co porate culture. "I like the idea that yo can have fun while doing seriou things," he says. This year, the cove of Wonderware's annual report feature an image of a cow stepping out of computer screen, to illustrate how In Touch could control a mythical dairy products company called WonderMo An excuse, perhaps, for the papie mâché cow that Morin just commissioned to adorn the lobby.

By Larry Armstrong in Irvine, Cali

ROCK BOTTOM RESTAURANTS

BREWING UP SOLID PROFITS

The line snakes out the door at the Rock Bottom Brewery in Denver, but nobody's complaining. As a khaki-clad waiter passes out complimentary beer, the crowd of young professionals plays pool, checks out the brewhouse, and eyes platters of chicken enchiladas whizzing by.

CEO DAY KNOWS THE VALUE OF QUALITY SERVICE AND FOOD, AND S DOES WALL STREE

Rock Bottom diners aren't the only ones with a taste for the brew pub. Wall Street is positively drooling over Rock Bottom Restaurants Inc., which owns six Rock Bottom brew pubs as well as Old Chicago, a chain of 18 pizza restaurants. Last year, net income at the company—No. 25 on this year's Hot Growth list—shot up 36%, to $1.9 million, on revenues of $38.9 million, a 57% gain. Michael G. Mueller, a managing director at Montgomery Securities, expects revenues to reach $74 million this year, with net income more than doubling to $4.5 million.

Old Chicago cooked up nearly 60% of revenues last year, but it's the Rock Bottom brew pubs that have caused Wall Street to hoist the stock to nearly 22, some 30 times projected earnings. Rock Bottom was launched five years ago by Chairman and CEO Frank B. Day—a former Burger King Corp. franchisee and Harvard MBA. It's now the most advanced player in the race to build a national chain of brew pubs, a rush fueled by the soaring popularity of tiny local microbreweries. After testing out the formula in its original Denver brew pub for two years, the company began expanding in 1993. Now Day, 62, plans to double the lucrative chain to 13 restaurants by the end of 1996.

Rock Bottom has thrived because, unlike many pubs, it emphasizes good food. And unlike most restaurants, it also does a good job with the beer. "We're very serious about it being a restaurant. Some brew pubs are not; they're more interested in being a tavern," says Day. "We try to keep a balance." It's a mix that works: Some 45% of revenues, about twice the national restaurant average, come from alcoho mostly beer, which Rock Bottom brew for 20¢ a glass and sells for $3.

Day, who opened Boulder's first fer bar in the early 1970s before launchin the Old Chicago chain in 1976, know firsthand that quality service pays off i the restaurant business. Rock Botto employees rely on teamwork, run eac other's orders to tables, share grun work, and rotate undesirable shifts Each new hire serves a 30-day proba tion period—and must get the approva of 10 employees before becoming part o the permanent staff. As a result, th turnover is approx imately half the na tional average i restaurants.

FICKLE? Of course Rock Bottom's ap peal could go flat Restaurant custom ers are notoriousl fickle, and som young professional have already tire of the brew pub. " used to go to th Rock Bottom, bu it's been taken ove by women in bi hair who've hear men in suits han out there," says Denver lawyer, who is doing her party ing elsewhere.

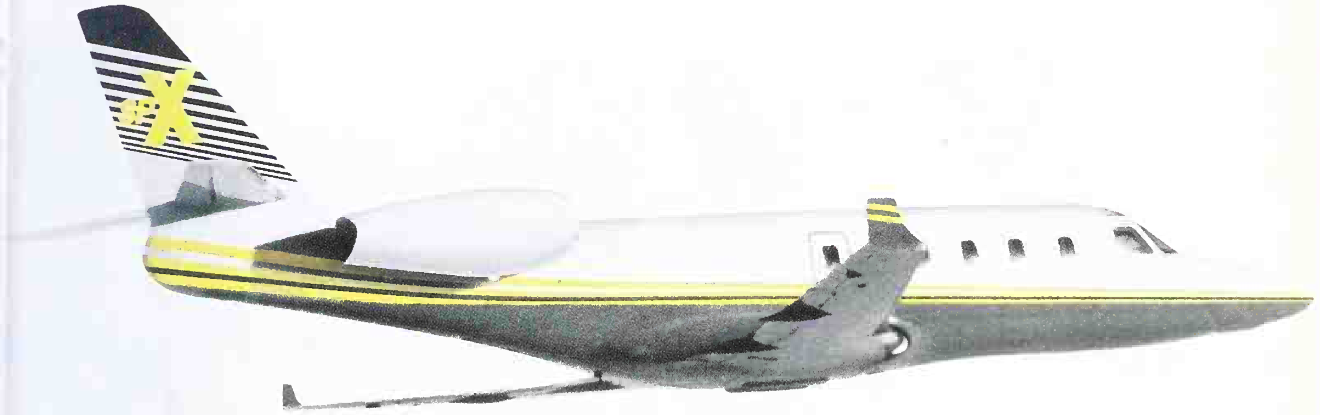
So far, others have taken her place Rock Bottom "is doing 25% better i volume than in our wildest dream when we opened it," says Day. Now that kind of success is something t drink to.

By Sandra Dallas in Denve

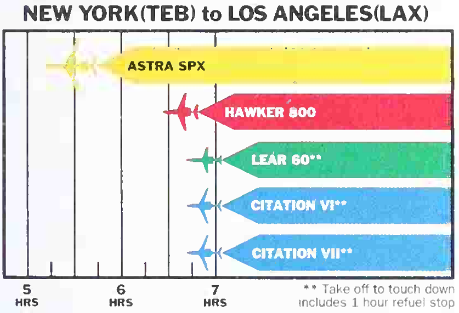
ASTRANOMICS: THE NEW REALITY IN BUSINESS AVIATION

The new Astra SPX.

Introducing the practical benefits of advanced technology.

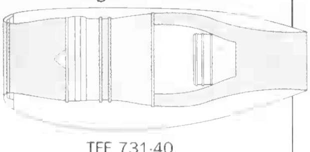


The new Astra SPX brings a whole new dimension to the world of business aviation. Born of advanced technology, the fuselage fits the human form and achieves the highest degree of aerodynamics. Interior space is maximized while minimizing the external frontal drag. As a result, the SPX can fly non-stop* from New York City to Los Angeles at a speed of .82 Mach. That's one hour faster than any other manufacturer's mid-size business jet. The Lear 60, Citation VI and VII require a stop* to complete the mission.

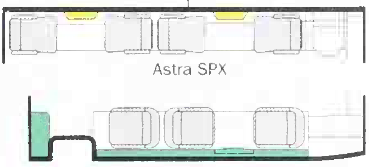


Climb to the top

Thanks to the new more powerful, highly efficient AlliedSignal 731-40 engines, the SPX offers a range of 3690 miles, 600 miles greater than the Hawker 800. The digitally controlled engines were derived from AlliedSignal's highly successful turbo fan engines with a history of more than 28 million flight hours. Truly a global performer, the Astra SPX will fly you to London from New York, non-stop. Combining the 731-40 engines with the new wing design, the SPX achieves extraordinary short field performance. On a 1,000 mile mission, it can take off from runways 500 feet shorter than any of its mid-size competitors. In fact, the SPX can take off from shorter fields than the Beechjet 400A and has an operating cost per mile less than the Citation V Ultra. The SPX offers the most advanced digital avionics that will be available on future larger business jets like the Challenger 604, Falcon 2000 and the Astra Galaxy. This advanced Collins avionics package provides your pilots with greater information and reliability.



TFE 731-40



More comfort on the inside

The SPX can cruise above the weather at 41,000 feet for longer periods of time than any mid-size business aircraft, adding to the comfort and quietness of the cabin environment. Henry Dreyfuss Associates designed a cabin interior around their human engineering philosophy. The SPX offers greater leg room than a Lear 60 and has a longer cabin.

Your stockholders will applaud

The Astra SPX is part of a new generation of Astra business aircraft. This comes at a time when large and small corporations are looking at new ways to reduce their overhead and improve their profits. It's something we call Astranomics: the new reality in business aviation. It's something your stockholders will applaud. Call our president, Roy E. Bergstrom, at **1 609 987-1125** or fax us at **1 609 987-8118** for more information.

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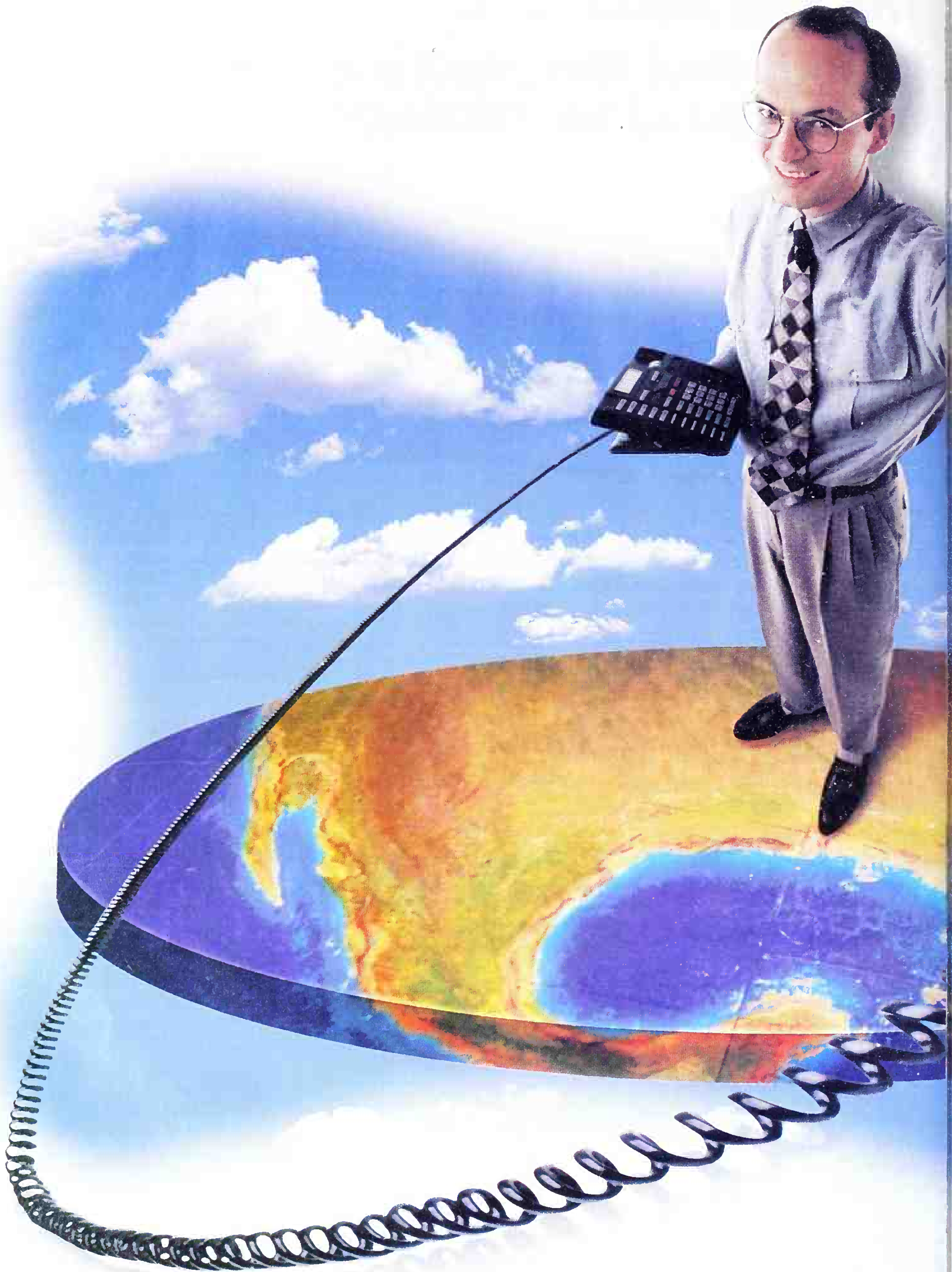

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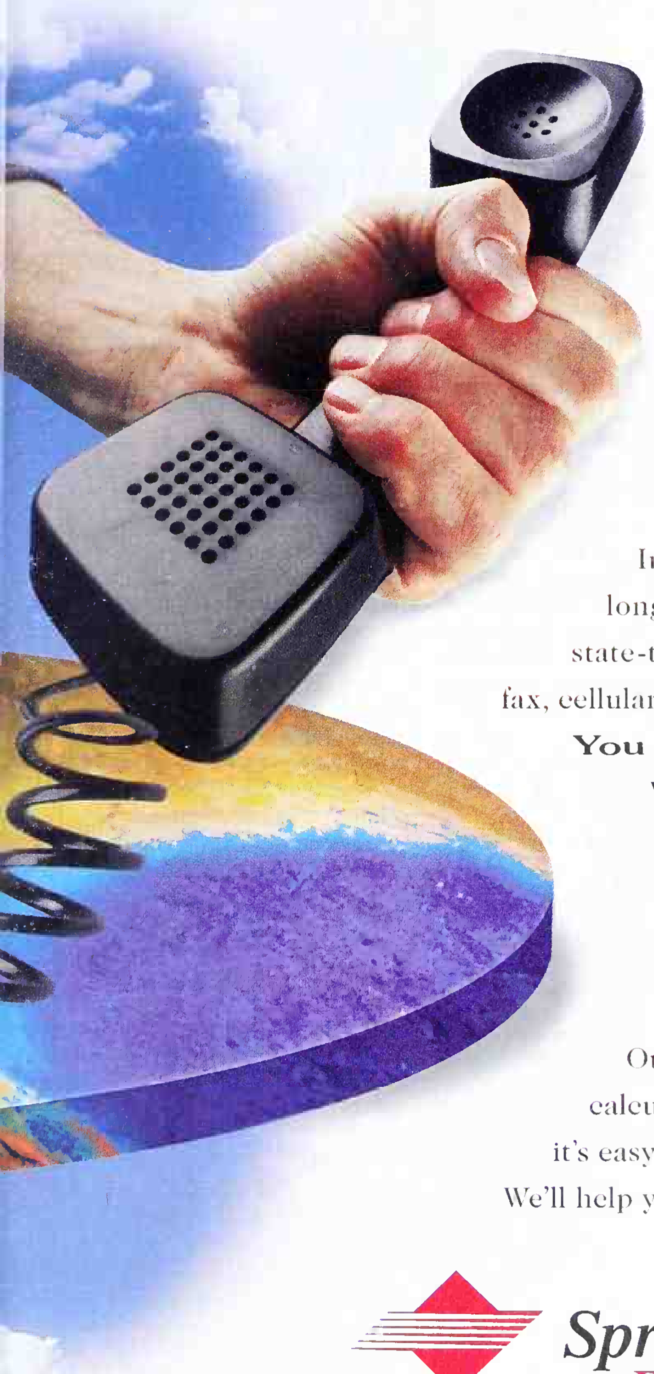

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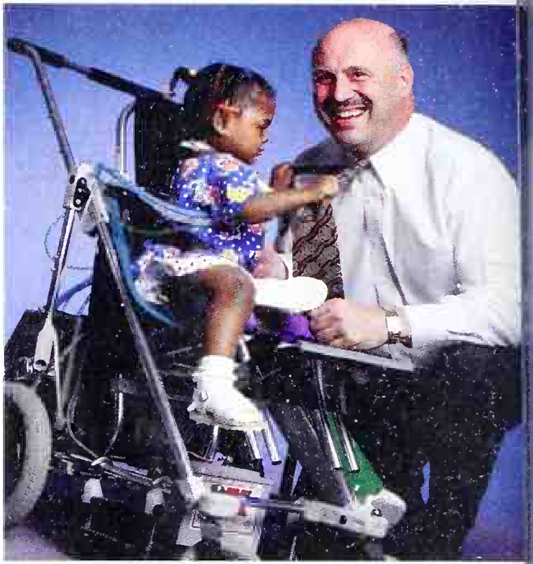
PEDIATRIC SERVICES

SPECIAL CARE FOR SICK KIDS

There's a popular doll making the rounds at Pediatric Services of America Inc. (PSA). If it weren't for the black-felt moustache, you might mistake it for a Cabbage Patch Kid. But the play money bulging from its diapers—and a face resembling CEO Joseph D. Sansone—is a dead giveaway that this doll wasn't made for the kids that PSA serves. Crafted by PSA nurses, the Joe Doll instead starred in a recent employee skit toasting the company's success.

Special Report

And successful it has been: No. 50 on BUSINESS WEEK's Hot Growth list, PSA is the nation's fastest-growing provider of children's home-health-care services. The Norcross (Ga.) company cares for the most fragile patients around: acutely ill babies and children. PSA's 12-state network of nurses, therapeutic services, and equipment offers a thrifty alternative to long, expensive hospital stays. With 63% of PSA's $48 million in sales for the year ended Sept. 30, the pediatric business drives PSA's growth.


PATIENTS OF JOE: PSA IS THE FASTEST-GROWING PROVIDER OF KIDS' HOME CARE

HIDDEN JEWEL. Eight years ago, the company, then known as Ambulatory Services of America, was a candidate for intensive care itself. The $17 million company was hemorrhaging red ink, and its balance sheet was awash in uncollected receivables. That's when industry veteran Sansone, 51, was brought in by then-parent Charter Medical Corp. Sansone slashed receivables and automated the back office. He also hired its first-ever chief financial officer. "They basically had an accountant—not even a CPA," he says.

Sansone also discovered the company's hidden jewel: its neglected pediatric home-care operation. He realized that when it came to medical treatment, "children aren't just small adults" and figured a company focusing on their needs would work. So he took a $50,000 second mortgage, and bought the unit in a $9 million leveraged buyout in 1989.

He hasn't looked back. Working closely with pediatricians, PSA has built a reputation for providing equipment geared to children, as well as nurses accustomed to their medic tion and therapy needs. La June he took PSA public, rai ing $14 million. Much h gone to pay for seven acqui tions, which are fueling PSA'S growth Sansone extends its territory. The dea should boost revenues 46%, to $70 mi lion, for fiscal 1995, while analyst Ran Huyser of Furman Selz expects ear ings to rise 86%, to $3.9 million. If th company keeps pulling in cash at th pace, that Joe Doll is going to need bigger diaper.

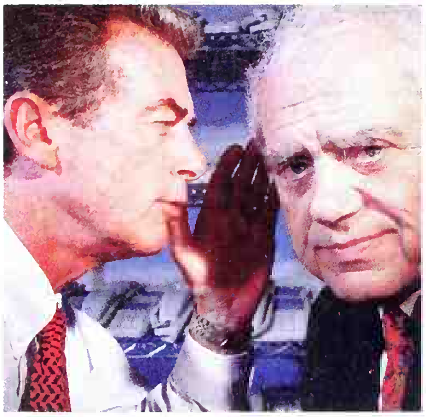
By Maria Mallory in Norcross, G

CIDCO

PICKING UP ON CALLER ID

You'd expect Robert L. Diamond and Paul G. Locklin to be exultant. In three years, they've taken Cidco Inc. from a blip on the radar screen to the No. 1 maker of caller-ID gear. But don't expect swagger. Says Diamond: "We stay awake at night. We worry about every pin that drops. And we worry about every competitor. We cannot rest."

So far, the work and worry is paying off. No. 5 on the Hot Growth list, Cidco saw sales nearly triple, to $100 million in 1994, while earnings rose 181%, to $11.7 million. The trigger for such growth: big demand for the service that identifies callers and flashes their name and phone number on an LCD screen before you answer. Forecasters predict new subscribers will double this year, to 6 million—and with 60% of the market today, Cidco is poised to pick up the lion's share. Says Diamond: "We happened to be standing there to catch the wave."


LOCKLIN AND DIAMOND HAVE SEEN EXPLOSIVE GROWTH—TO 60% OF THE MARKET

Cidco built its success on a winning distribution strategy. It sells only 15% of its devices through retail outlets, focusing instead on ties with phone giants. Many relay orders directly to Cidco's computer. Within 48 hours, the system is sent to the customer. Says analyst Nicholas P. Coutros of Alex. Brown & Sons Inc.: "Cidco is outsourcing the entire headache for the phone companies."

Good connections have been with Cidco from the start. It was founded in 1988, when longtime associates Diamond and Locklin got wind that phone companies wanted to offer caller ID. Both ha industry ties: Diamond, 62, owned New York-based consulting firm tha did work for AT&T; Locklin, 49, ha founded PCI Pte., a Singapore maker LCD screens and cordless phones.

When word of caller ID got out, Dia mond and Locklin each ponied u $50,000 to make a prototype with th help of a contract engineer. Eightee months later, Bell Atlantic Corp. ordere 7,500 units. Cidc was on its way.

Today, Lockli oversees opera tions from tiny Morgan Hill, Calif., while Diamonc builds sales out of New York offices Cidco's stock, which debuted a year ag at $15, now sells at about $35. "We are experiencing something most people only dream about," says Locklin. "The industry is in its embryonic stage, and we're in the driver's seat." Could anything snarl their plans? The biggest risk is mismanaging the supernova growth. Given the work-and-worry mode of its founders, analysts aren't too concerned. Ask Locklin about his goals for Cidco, and he says: "Not to fumble."

By Kathy Rebello in Morgan Hill, Calif.

(TOP TO BOTTOM) PHOTOGRAPHS BY ANN STATES/SABA, JOHN HARDING

DIAGNOSTIC REPORTS

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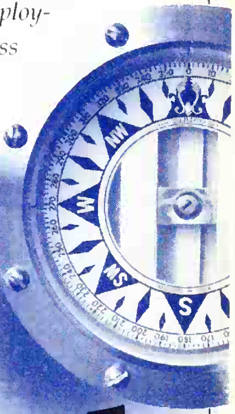

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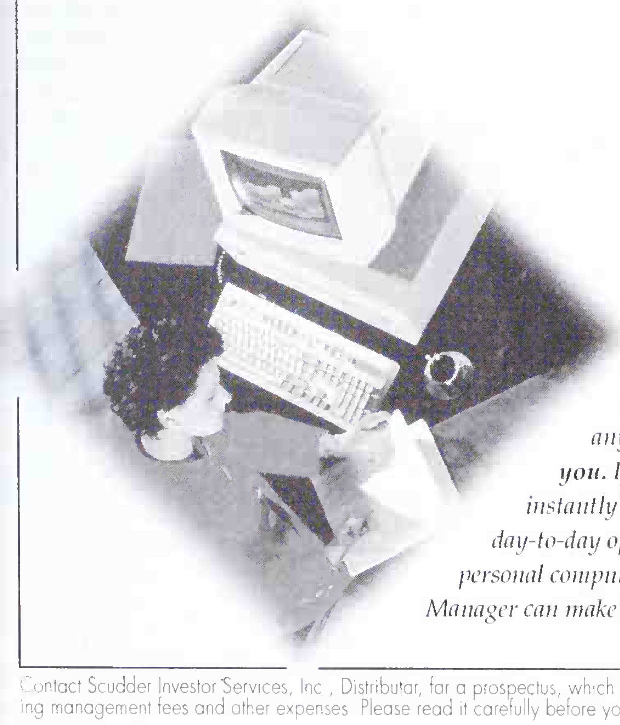

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BRIGHT STARS AND BURNOUTS

Some former hotshots are still hot. Others…

Back in 1993, the world was Just Toys Inc.'s playground. The New York-based toymaker had hits with products such as Bend-Ems and the Beauty and the Beast Talk 'N View Magic Mirror. Sales had topped $32 million in 1992, after growing more than 200% for three years running, and the future looked bright for Allan Rigberg and Rose Evangelista, the husband-and-wife team who co-founded the company. Indeed, Just Toys was so hot two years ago, when it topped BUSINESS WEEK's Hot Growth Companies ranking, that Rigberg declined to answer questions about the company. He feared the Securities & Exchange Commission might accuse him of hyping the red-hot stock.

There's little chance of that these days. Just Toys sports the second-worst two-year total return of the Hot Growth Class of '93. Its stock fell 93%, from 18 to a recent 1¼. What spoiled the fun? Just before last Christmas, a few of its Quick 'N Easy Micro-Bake toy ovens emitted sparks or melted. When it recalled thousands of units, results melted down too: In 1994, Just Toys lost $15.7 million on sales of $23.9 million.

Special Report

In March, Rigberg and his wife were fired, and outside director Morton J. Levy was installed as the new chief executive. The pair complained that they were made "scapegoats." Levy counters that their capricious management style was the problem: "They didn't get that they were running a public company," he says.

CYCLE SYNDROME. No one ever said investing in Hot Growth companies was for the faint of heart. While high-flying companies can dazzle investors with their prospects, inexperienced managers can stumble when faced with exponential growth. As a group, the Hot Growth Class of 1993 posted an 8.8% total return over the last two years, compared with the 26.5% return of the Standard & Poor's industrials. Small-company mutual funds rose 25% for the same period, says Morningstar Inc. Why the big gap? Small companies typically see growth rates slow as they get bigger—while investors tend to bail out at the first sign results are weakening and move money into companies earlier in the growth cycle.

Still, it's the promise of picking out the rare star capable of breaking from the pack that keeps adventurous investors betting on bustling young companies—such as Computer Associates International Inc., one Hot Growth alum that's made it big. A $100 investment in Computer Associates when it made its Hot Growth debut in 198 would be worth $2,102 today.

Business Week's Class of 1993

THE WINNERS...	TWO-YEAR TOTAL RETURN
U.S. ROBOTICS	286.6%
HYPERION SOFTWARE*	196.6
BRODERBUND SOFTWARE	180.9
ROTECH MEDICAL	176.6
FIRST TEAM SPORTS	162.5
VICOR	156.7
FASTENAL	138.6
EXPRESS SCRIPTS	124.3
AMERICAN BUSINESS INFO.	100.0
TRANSMEDIA NETWORK	96.2

*Formerly IMRS

...AND THE LOSERS	TWO-YEAR TOTAL RETURN
NDC AUTOMATION	–93.5%
JUST TOYS	–92.9
AMBER'S STORES	–92.2
CHECKERS DRIVE-IN	–80.6
UNIVERSAL ELECTRONICS	–80.2
RALLY'S HAMBURGERS*	–78.8
NATURAL WONDERS	–77.3
U.S. HOMECARE	–69.4
FRESH CHOICE	–69.2
APPLIANCE RECYCLING CENTERS	–63.7

*Formerly Rally's

Calculated on the basis of stock price as of Apr. 28; excludes companies no longer trading

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES

FOR WHOM THE BELL TROLLS: FORMER JUST TOYS EXEC EVANGELISTA

U.S. Robotics Corp. isn't in that leagu yet, but the Skokie (Ill.)-based manufacture of modems and network management systems is the clear valedictorian of the Class of '93. It eve graduated right off the Hot Growth roster, since its 1994 sale of $378.7 million far overshot the list's $150 million cap. U.S Robotics beat out its Hot Growth classmates as the best-performing company thus far: Its stock is up 287%, to a recent 79

The secret? As offices and homes across the country lin up to networks and online information services, U.S. Robotics sits in the middle of the action. And unlike most of it competitors, the company buys inexpensive, generic chip for its modems, rather than buying more expensive specialize chips. "They buy lower on the food chain and add their ow value," says Montgomery Securities analyst Todd A. Dagres "They also have [their industry's] best management."

Good management is also playing a role in the turnaround of another highflier of 1993: Longhorn Steaks Inc., a Atlanta-based restaurant chain. Its stock began to tumble i the middle of 1993 when it expanded with too many nev restaurants in iffy locations. Founder Georg McKerrow Jr. made rare move: He essentiall fired himself as CEO Though he remains chairman, he brought in seasoned industry veteran to run the show. The nev team of experienced managers has begun to pu things right. Althoug Longhorn's stock is stil down 28% from 1993, i has climbed 62%, to 13 since the beginning o 1995. Having learned it lesson from too-ho growth, Longhorn i working its way back int investors' favor.

By Elizabeth Lesl
in New Yor

1995

HOT GROWTH COMPANIES

o win a position in this table, .ompany must excel in three /s. The selection process be- s by ranking companies ac- ding to their three-year results sales growth, earnings growth, 1 return on invested capital. ranks in the table are calcu- ed from these numbers. A npany's composite rank is the n of 0.5 times its rank in re- n on total capital, plus 0.25 es each of its growth ranks. Standard & Poor's Compustat, division of The McGraw-Hill npanies, which has computer- d financial data on 10,000 publicly traded corporations, provided the pool of companies from which winners were selected. To qualify, a company has to have annual sales of more than $10 million and less than $150 million, a current market value greater than $1 million, a current stock price greater than $2, and be actively traded. Banks, insurers, real estate firms, and utilities are excluded. So are companies with sharp declines in current financial results, as well as companies where other developments raise questions about future prospects.

SALES and **EARNINGS** are the latest available through the most recent 12 months. Earnings include net income from continuing operations, before gains or losses from extraordinary items.

INCREASES in **SALES** and **PROFITS** are calculated using the least-squares method. If results for the earliest year are negative, the average is for two years.

RETURN ON CAPITAL is earnings plus minority interests and tax-adjusted interest expense expressed as a percent of total debt and equity. For ranking purposes, the maximum allowable annual return on invested capital is 100%. If companies have made substantial accounting restatements, long-term returns may be averaged for two years instead of three years.

Time periods vary according to the month of a company's fiscal yearend. Profitability and growth are calculated based on the most recently available data.

STOCK PRICE data are as of April 28, 1995. A ● indicates that a company also appeared in last year's rankings (BW—May 23, 1994).

	COMPANY (STOCK SYMBOL)	**CURRENT RESULTS**		**THREE-YEAR AVERAGES**			**INVESTMENT DATA**			
				INCREASE (%)			STOCK PRICE			
		SALES $ MIL.	EARNINGS $ MIL.	SALES	PROFITS	RETURN ON CAPITAL	52-WEEK HIGH - LOW	RECENT	P/E RATIO	MARKET VALUE $ MIL.
1	**HAPPINESS EXPRESS** (HAPY) New York City 212-675-0461 It's fun time with their toys and children's room decor	49.5	6.4	111.8	439.2	68.2	18 – 9	12	11	78
2	**ELCOTEL** (ECTL) Sarasota, Fla. 813-758-0389 Phone away from home: It makes, sells, and services pay phones	24.4	2.9	61.9	456.9	53.8	6 – 3	5	13	37
3	**MEDIA ARTS GROUP** (ARTS) San Jose, Calif. 408-947-4680 From miniature English cottages to Father Time clocks, a maker of collectibles	49.4	1.3	169.1	193.4	46.0	9 – 5	6	NA	58
4	**FORE SYSTEMS** (FORE) Warrendale, Pa. 412-772-6600 Maker of high-speed networking equipment for computers	75.6	7.4	318.1	350.7	40.3	42 – 10	34	124	869
5	**CIDCO** (CDCO) Morgan Hill, Calif. 408-779-1162 World's leading producer of caller ID units	135.5	16.1	139.6	333.1	38.2	38 – 15	36	32	505
6	**RETIREMENT CARE ASSOCIATES** (RCRE) Atlanta 404-255-7500 Owns and operates nursing homes and retirement homes in the Southeast	59.5	4.7	688.3	1139.3	33.6	10 – 6	8	17	80
7	**GEERLINGS & WADE** (GEER) Canton, Mass. 617-821-4152 Get your Grand Cru delivered with this direct-mail wine marketer	20.3	1.3	92.7	349.4	37.9	18 – 7	16	39	60
8	**APPLIED INNOVATION** (AINN) Dublin, Ohio 614-798-2000 ● Telecommunications equipment for industry	36.5	7.8	126.4	145.2	41.3	29 – 15	27	27	206
9	**EMPLOYEE SOLUTIONS** (ESOL) Phoenix 602-955-5556 Tired of the paperwork? They do payroll, benefits, and workers comp	74.3	0.4	157.7	181.0	37.3	10 – 5	8	104	33
0	**SAFESKIN** (SFSK) Boca Raton, Fla. 407-395-9988 ● Hypoallergenic latex gloves for medical, dental, and technological uses	84.1	14.4	70.2	126.3	53.4	18 – 10	13	11	156
1	**JALATE** (JLT) Los Angeles 213-765-5000 Maker of moderately priced women's and juniors' sportswear	63.9	1.9	31.9	915.9	53.1	13 – 7	7	13	25
12	**CAMBRIDGE TECH. PARTNERS** (CATP) Cambridge, Mass. 617-374-9800 Rapid development and implementation of information technology solutions	68.8	7.8	77.1	127.6	42.1	36 – 14	34	66	457
13	**UNICOMP** (UCMP) Marietta, Ga. 404-424-3684 Develops, markets, and supplies software and Unix-based services worldwide	15.5	1.6	281.4	482.4	27.8	5 – 2	4	11	18
14	**CDP TECHNOLOGIES** (CDPT) New York City 212-563-3006 Electronic information retrieval for academic, biomedical, and scientific markets	24.9	1.5	47.5	136.4	44.8	11 – 6	9	40	48
15	**NETMANAGE** (NETM) Cupertino, Calif. 408-973-7171 ● Maker of software for network applications	78.3	19.4	412.4	520.8	26.5	23 – 6	18	38	723
16	**CHAD THERAPEUTICS** (CTU) Chatsworth, Calif. 818-882-0883 Breathe easy: Maker of a portable oxygen unit	13.2	2.4	60.1	89.5	44.5	10 – 6	9	23	55
17	**THREE-FIVE SYSTEMS** (TFS) Phoenix 602-389-8600 ● Makes and designs LED and LCD display modules	93.5	13.9	67.5	279.7	28.5	50 – 20	24	14	187
18	**INSO** (INSO) Boston 617-351-3000 Provides software for original-equipment manufacturers and users	26.4	6.3	44.8	72.3	62.1	63 – 21	63	59	365
19	**ENCAD** (ENCD) San Diego 619-452-0882 Wide-format color inkjet printers for floor plans and other large graphics	49.7	7.0	99.5	91.5	31.8	25 – 8	24	19	128
20	**DAIG** (DAIG) Minnetonka, Minn. 612-933-4700 ● Not to skip a beat: It manufactures electrocardiovascular products	35.4	8.9	41.4	138.1	37.2	16 – 5	14	23	205
21	**CMG INFORMATION SERVICES** (CMGI) Wilmington, Mass. 508-657-7000 It knows whom to target with direct-marketing mailing lists	21.4	2.1	16.9	116.3	73.6	19 – 5	14	31	62

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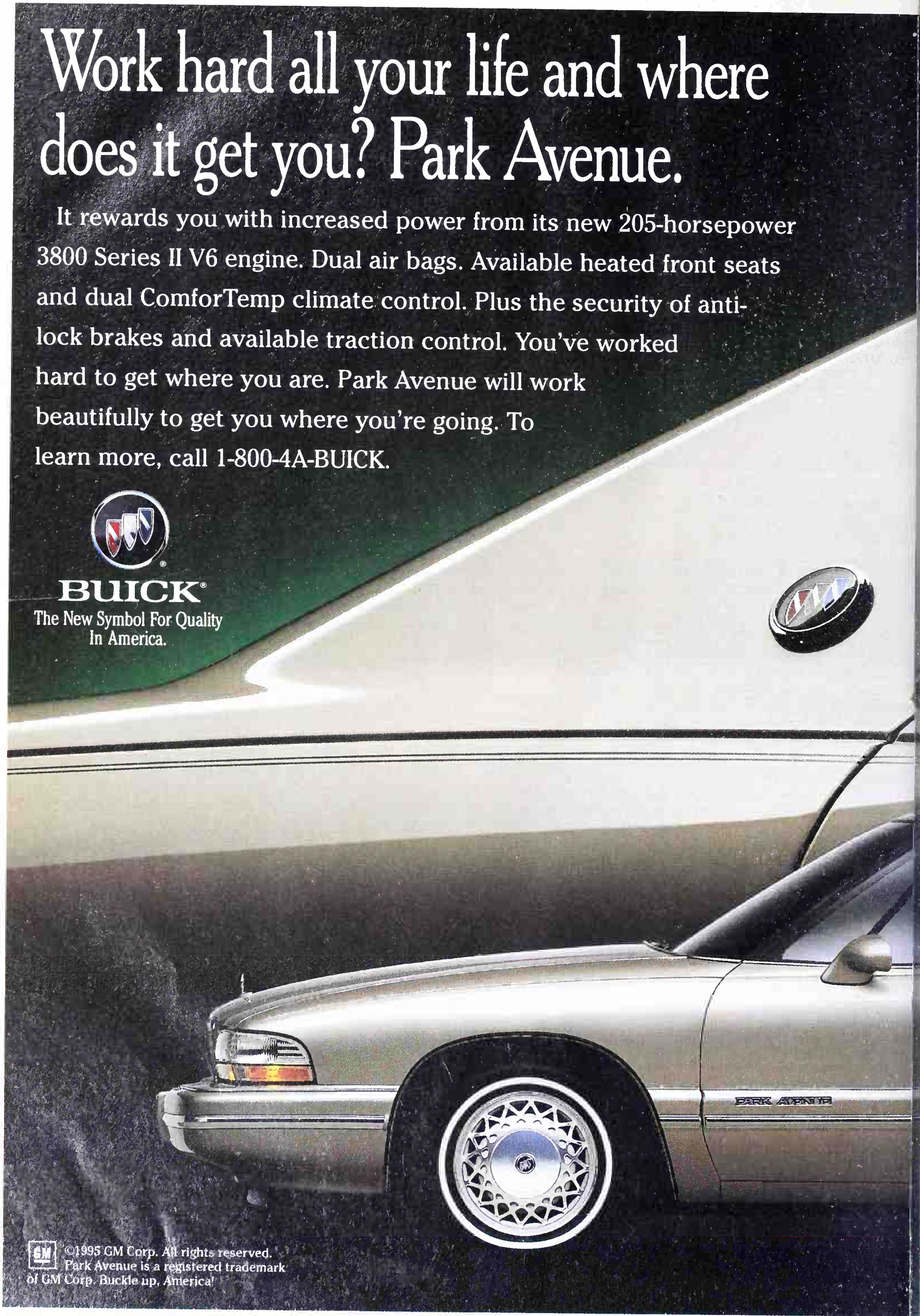

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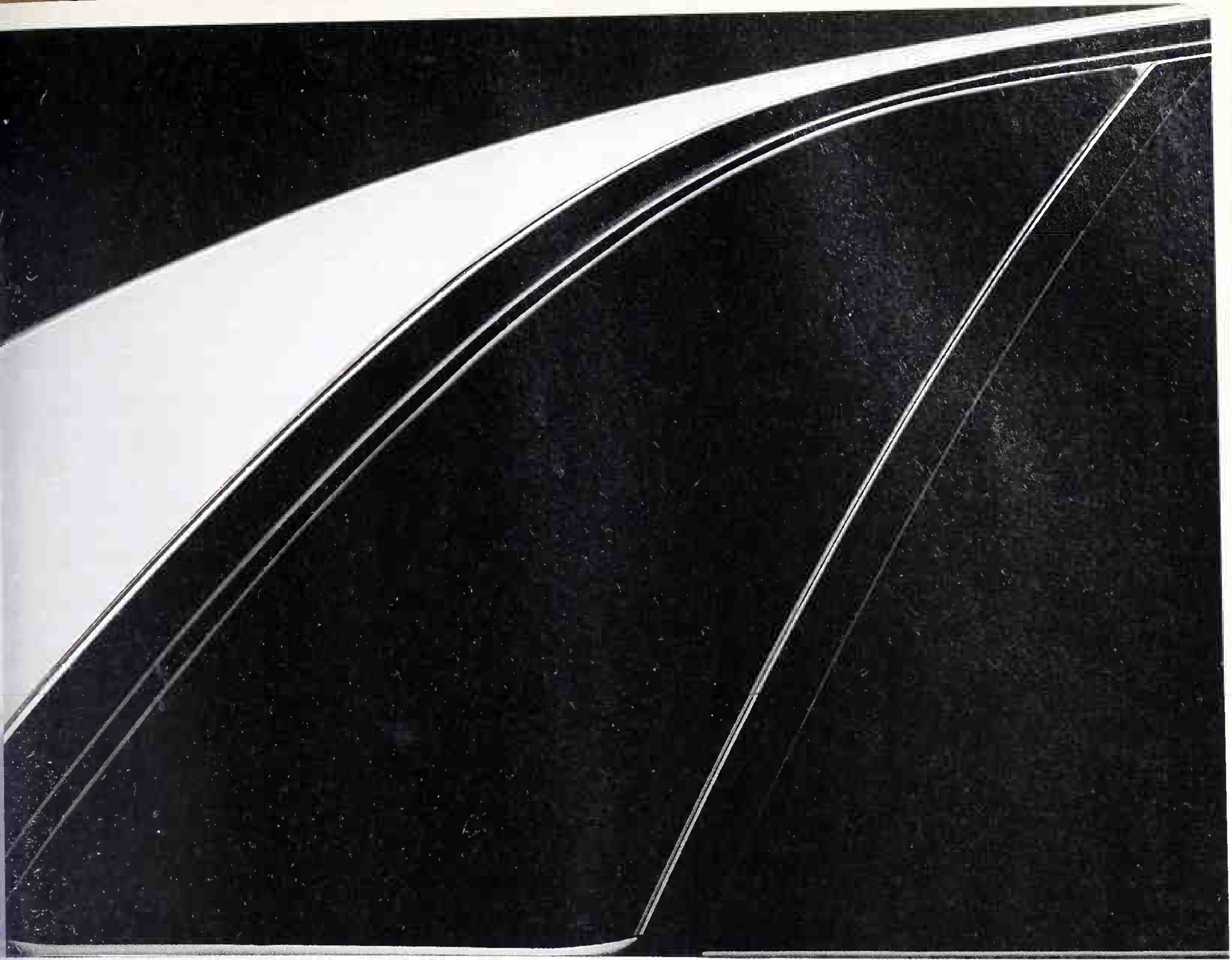
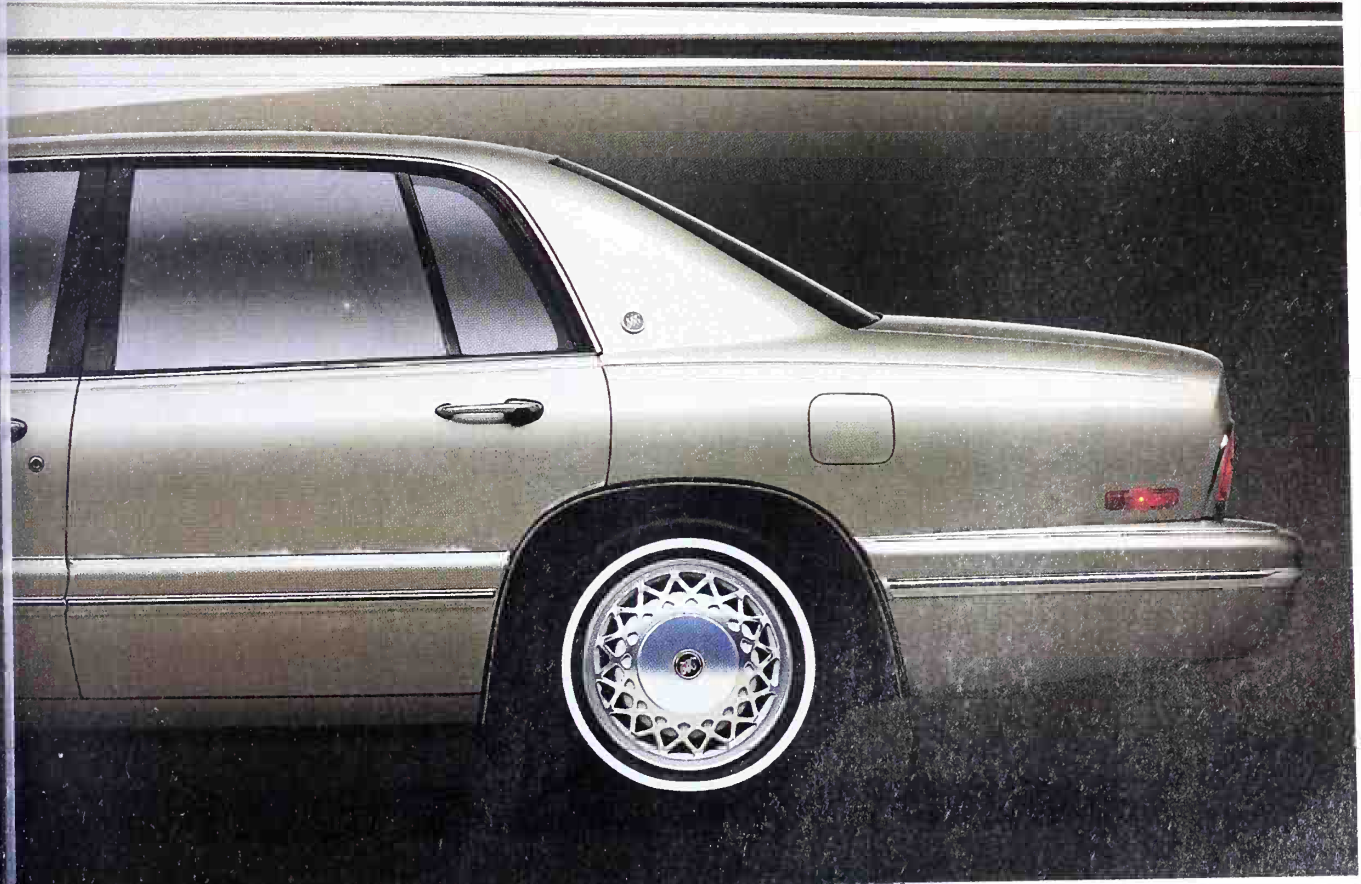
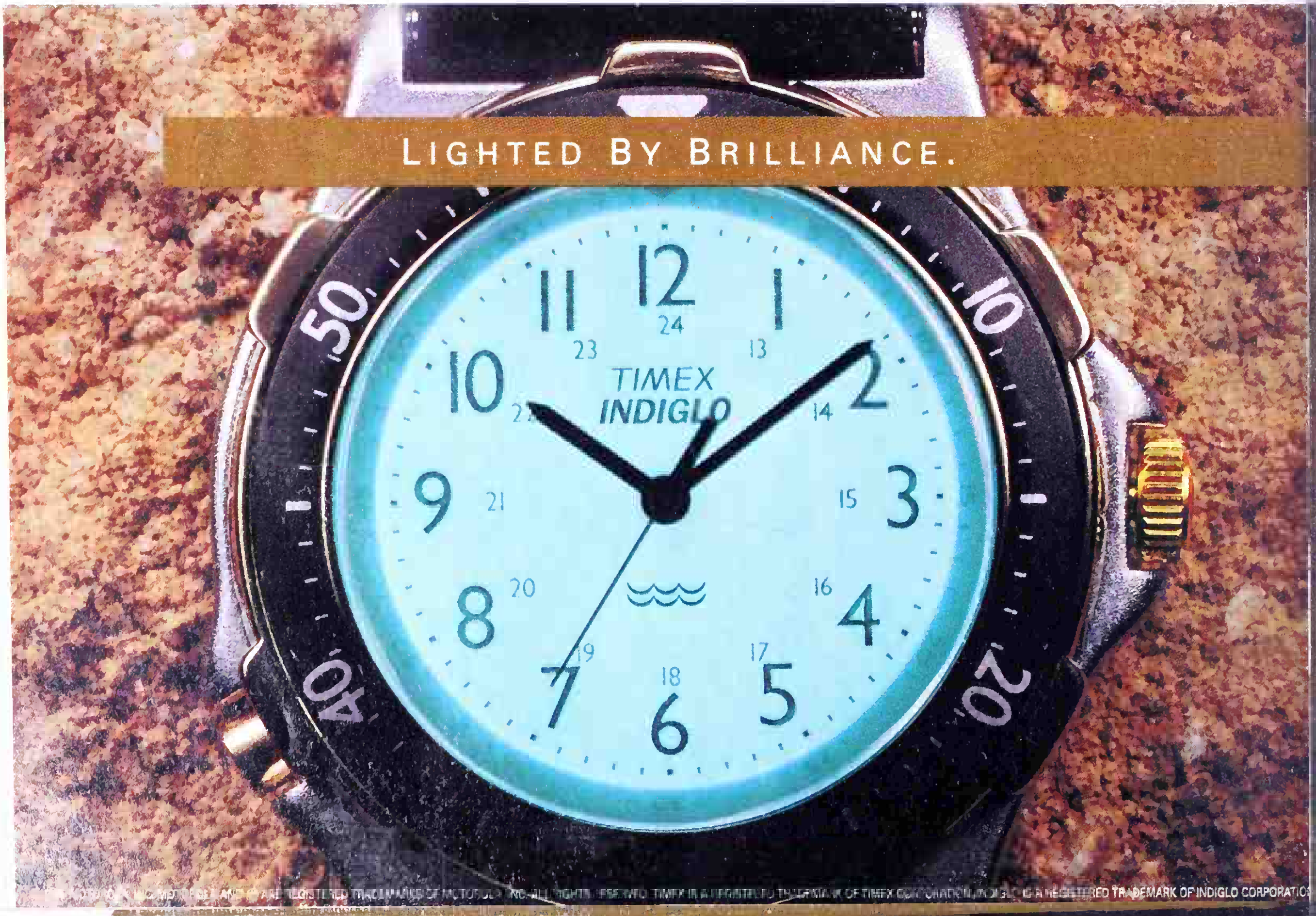




HOT GROWTH COMPANIES

	COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA			
				INCREASE (%)			STOCK PRICE			
		SALES $ MIL.	EARNINGS $ MIL.	SALES	PROFITS	RETURN ON CAPITAL	52-WEEK HIGH - LOW	RECENT	P/E RATIO	MARKE VALUE $ MIL
22	**ULTRAK** (ULTK) Carrollton, Tex. 214-280-9675 Markets, sells, and serves closed-circuit TV	82.8	2.9	60.6	129.5	29.9	9 – 5	8	19	52
23	**FTP SOFTWARE** (FTPS) Andover, Mass. 508-685-4000 ● PC users hook up with each other via FTP's internetworking software	105.5	25.9	67.8	47.4	40.2	36 – 12	26	29	613
24	**TREND-LINES** (TRND) Revere, Mass. 617-884-8882 Hobbyists are happy with their woodworking tools and golf equipment	116.7	5.0	26.5	63.0	74.2	15 – 11	13	14	84
25	**ROCK BOTTOM RESTAURANTS** (BREW) Boulder, Colo. 303-417-4000 For gastronomes only: Casual dining, specialty and microbrewed beer	45.6	2.1	41.6	36.2	70.0	23 – 8	20	48	107
26	**APOLLO GROUP** (APOL) Phoenix 602-966-5394 Parent of the U of Phoenix, it offers higher education for working adults	142.4	7.4	21.6	128.9	40.9	27 – 8	27	41	301
27	**ELECTRONICS, MISSILES & COMMUNS.** (ECIN) White Haven, Pa. 717-443-9575 Manufactures television broadcast equipment for low-power and wireless cable	16.8	2.9	30.2	149.9	33.2	9 – 5	7	11	30
28	**NAVARRE** (NAVR) Brooklyn Park, Minn. 612-535-8333 A leading distributor of music, computer software, and interactive CD-ROMS	106.3	1.1	64.8	379.6	23.9	7 – 3	7	19	20
29	**GASONICS INTERNATIONAL** (GSNX) San Jose, Calif. 408-944-0212 Maker of equipment used in semiconductor manufacturing	77.7	11.0	37.5	250.5	27.6	24 – 10	23	17	187
30	**INTEGRATED SILICON SYSTEMS** (ISSS) Research Triangle Pk, N.C. 919-941-6600 Provides electronic design automation software for complex integrated circuits	14.5	3.6	81.6	88.1	27.8	32 – 15	27	31	110
31	**DECKERS OUTDOOR** (DECK) Carpinteria, Calif. 805-684-7722 ● It puts its best foot forward in making Teva sporting sandals	93.4	11.2	88.3	92.3	26.6	18 – 10	17	15	164
32	**NATIONAL TECHTEAM** (TEAM) Dearborn, Mich. 313-277-2277 ● Need a nerd? Computer support, training, consulting, and corporate services	31.9	2.2	59.2	213.0	24.0	8 – 4	6	27	62
33	**SYMETRICS** (SYMT) Melbourne, Fla. 407-254-1500 From voicemail to telecommunications software and electronics	17.3	1.2	54.3	70.0	31.8	21 – 6	18	12	15
34	**SUPREME INTERNATIONAL** (SUPI) Miami 305-592-2760 ● Sports shirts and other apparel for men and boys. Big and tall sizes, too	90.6	3.9	49.6	79.8	30.3	14 – 9	13	12	47
35	**NETWORK SIX** (NWSS) Warwick, R.I. 401-732-9000 ● Systems-integration services for governmental human-service organizations	23.1	2.1	80.2	120.5	25.7	18 – 8	10	15	29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OT GROWTH COMPANIES

	COMPANY (STOCK SYMBOL)	**CURRENT RESULTS**		**THREE-YEAR AVERAGES**			**INVESTMENT DATA**			
				INCREASE (%)			STOCK PRICE			MARKET VALUE $ MIL.
		SALES $ MIL.	EARNINGS $ MIL.	SALES	PROFITS	RETURN ON CAPITAL	52-WEEK HIGH - LOW	RECENT	P/E RATIO	
36	**MITY-LITE** (MITY) Orem, Utah 801-224-0589 Lightweight durable furniture for convention centers, hotels, and universities	11.8	1.8	26.3	43.1	53.4	10 – 6	8	13	24
37	**HIRSCH INTERNATIONAL** (HRSH) Hauppauge, N.Y. 516-436-7100 Stitch in time: Hirsch sells and leases embroidery equipment and software	72.3	4.8	32.3	88.3	34.9	13 – 7	12	12	57
38	**WONDERWARE** (WNDR) Irvine, Calif. 714-727-3200 ● Develops and markets "man-machine" software for IBM-compatible PCS	40.2	8.7	90.5	149.9	22.0	36 – 12	33	50	401
39	**IMAGE ENTERTAINMENT** (DISK) Chatsworth, Calif. 818-407-9100 Licenser and distributor of optical laser disks for home entertainment	75.9	5.6	8.8	127.3	36.2	9 – 6	7	17	100
40	**AAON** (AAON) Tulsa 918-583-2266 Manufactures commercial rooftop heating and air-conditioning units	81.5	4.8	41.6	129.6	27.0	17 – 7	9	11	53
41	**LANDRY'S SEAFOOD RESTAURANTS** (LDRY) Houston 713-850-1010 ● Seafood served in casual, comfortable dining settings	62.5	5.7	66.9	38.6	31.2	36 – 17	35	43	256
42	**SCIENTIFIC TECHNOLOGIES** (STIZ) Hayward, Calif. 510-471-9717 Manufactures and distributes optical sensing and infrared sensory devices	26.1	3.7	36.0	60.8	34.9	15 – 8	14	18	66
43	**MARKER INTERNATIONAL** (MRKR) Salt Lake City 801-972-2100 Schuss your way down the slope with their ski bindings and clothes	82.4	4.3	6.6	76.7	41.3	8 – 7	7	19	61
44	**KENNETH COLE PRODUCTIONS** (KCP) New York City 212-265-1500 Outfitting the foot: Designer footwear and accessories for men and women	78.2	6.6	31.9	44.4	38.7	32 – 10	30	29	194
45	**LUND INTERNATIONAL** (LUND) Minneapolis 612-780-2520 Designs and makes external accessories for new and used light trucks	43.8	6.6	41.4	115.9	27.3	23 – 16	21	14	92
46	**BROOKS AUTOMATION** (BRKS) Lowell, Mass. 508-453-1112 Offers vacuum-automation equipment for use in the semiconductor industry	32.8	2.6	50.7	333.2	20.4	15 – 9	14	27	49
47	**NN BALL & ROLLER** (NNBR) Erwin, Tenn. 615-743-9151 Manufactures precision steel balls and rollers for antifriction bearings	65.5	9.9	21.1	31.0	42.2	16 – 10	15	15	148
48	**CORNERSTONE IMAGING** (CRNR) San Jose, Calif. 408-435-8900 ● Document image-enhancement systems for personal computers	72.1	4.6	73.0	206.5	17.4	22 – 10	16	26	110
49	**ELECTRONICS FOR IMAGING** (EFII) San Mateo, Calif. 415-286-8600 Its products transform digital color copiers into high-quality color printers	143.4	24.3	95.9	209.0	15.7	57 – 15	46	24	546

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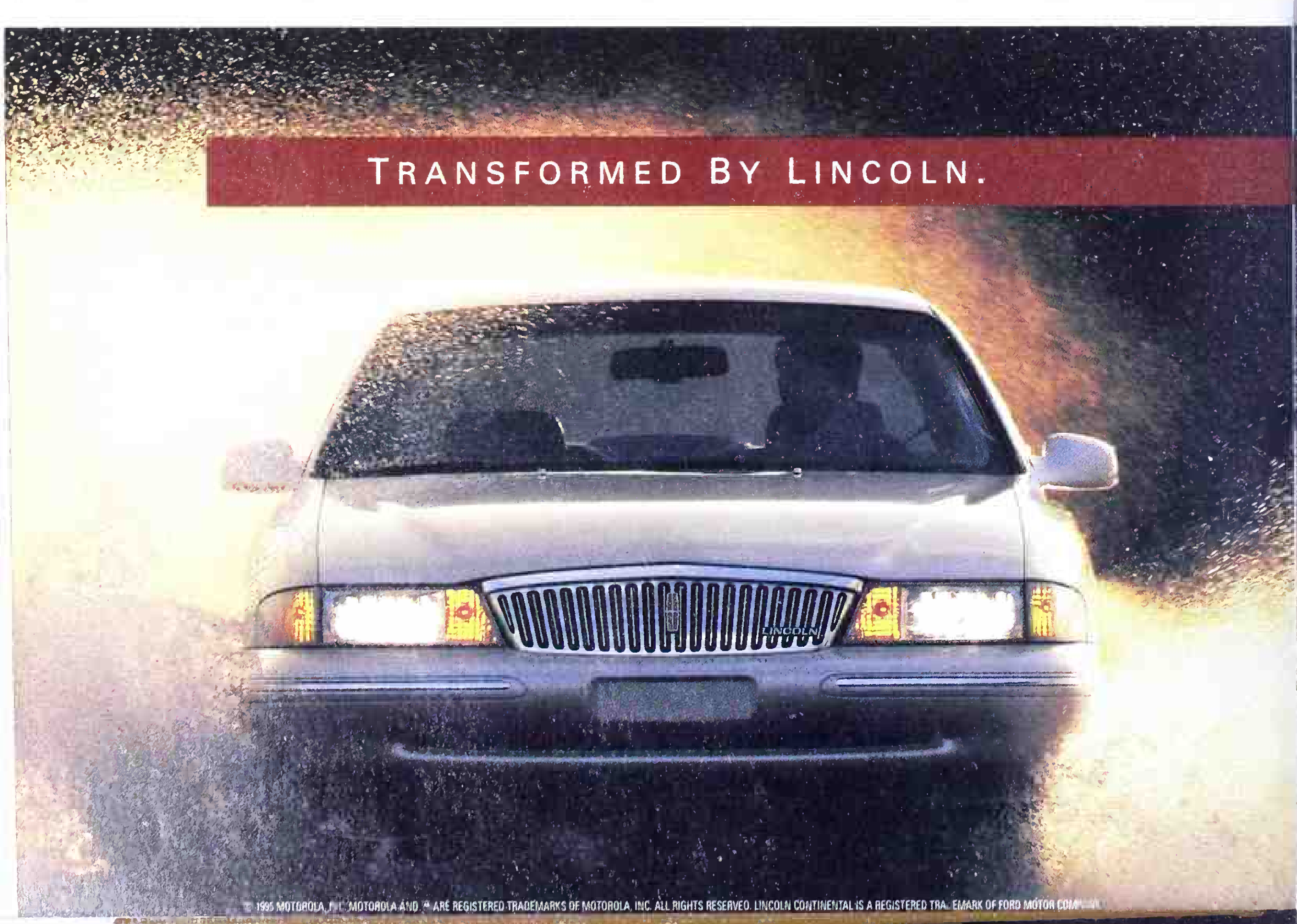
MOTOROLA
Semiconductor Products Sector

HOT GROWTH COMPANIES

	COMPANY (STOCK SYMBOL)	**CURRENT RESULTS**		**THREE-YEAR AVERAGES**			**INVESTMENT DATA**			
							STOCK PRICE			
		SALES $ MIL.	EARNINGS $ MIL.	INCREASE (%) SALES	INCREASE (%) PROFITS	RETURN ON CAPITAL	52-WEEK HIGH - LOW	RECENT	P/E RATIO	MARKE VALU $ MIL
50	**PEDIATRIC SERVICES** (PSAI) Norcross, Ga. 404-441-1580 Taking care of kids: This home health-care company specializes in pediatrics	58.3	3.2	32.6	120.2	26.7	19 – 7	16	31	62
51	**PC SERVICE SOURCE** (PCSS) Carrollton, Tex. 214-406-8583 Distributor of computer and printer parts	49.4	2.0	148.3	194.8	15.2	12 – 6	11	22	41
52	**BTG** (BTGI) Vienna, Va. 703-556-6518 Information-technology provider of customized and commercial solutions	142.4	2.8	71.7	170.1	16.9	10 – 6	9	16	55
53	**STERIS** (STRL) Mentor, Ohio 216-354-2600 Infection-prevention systems and products for the world health-care market	64.3	8.7	70.7	458.1	14.1	44 – 17	40	43	346
54	**ACCESS HEALTHNET** (AHNT) Thousand Oaks, Calif. 805-373-7007 Hardware and software that links physicians to managed-care facilities	10.7	1.6	125.3	250.6	12.1	11 – 8	9	31	51
55	**PROJECT SOFTWARE & DEVEL.** (PSDI) Cambridge, Mass. 617-661-1444 Client-server, capital-asset-maintenance software	39.2	4.3	7.7	78.5	34.0	27 – 9	24	29	128
56	**ELECTROGLAS** (EGLS) Santa Clara, Calif. 408-727-6500 Maker of automatic wafer-probing equipment for use in the semiconductor industry	121.6	24.9	25.3	60.3	33.2	51 – 27	44	15	379
57	**MEDCATH** (MCTH) Charlotte, N.C. 704-541-3228 Provides heart diagnostic services for hospitals without in-house facilities	23.7	2.3	61.0	141.7	19.3	16 – 12	13	30	31
58	**UNITECH** (UTII) Scottsdale, Ariz. 602-991-7626 Manufactures cellular-phone accessories	11.1	0.7	19.0	45.9	36.5	12 – 8	10	50	58
59	**APPLIED VOICE TECHNOLOGY** (AVTC) Kirkland, Wash. 206-820-6000 Manage messages, from phone to screen: Computer-telephony software	29.5	4.7	23.4	187.8	24.6	23 – 13	16	15	77
60	**DECORATOR INDUSTRIES** (DII) Pembroke Pines, Fla. 305-436-8909 Duck and cover with this maker of draperies, bedspreads, and other accessories	33.2	2.8	22.5	160.7	24.8	12 – 7	10	7	20
61	**CHAMPION INDUSTRIES** (CHMP) Huntington, W. Va. 304-528-2791 ● A champion of printing: It gets the ink on the page	40.1	2.7	12.3	42.0	37.0	24 – 15	21	41	104
62	**CRAFTMADE INTERNATIONAL** (CRFT) Grand Prairie, Tex. 214-647-8099 ● Heads up: A wholesale distributor of ceiling fans and lighting kits	34.9	2.5	20.2	119.5	27.1	12 – 8	8	11	28
63	**CATALINA MARKETING** (POS) St. Petersburg, Fla. 813-579-5000 ● Its scanning systems spurt coupons at checkout counters	113.3	17.2	29.6	53.6	28.1	56 – 41	47	27	457



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OT GROWTH COMPANIES

	COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA			
							STOCK PRICE			
		SALES $ MIL.	EARNINGS $ MIL.	INCREASE (%) SALES	INCREASE (%) PROFITS	RETURN ON CAPITAL	52-WEEK HIGH - LOW	RECENT	P/E RATIO	MARKET VALUE $ MIL
	MICOM COMMUNICATIONS (MICM) Simi Valley, Calif. 805-583-8600 In many sites? Remote connectivity products link computer, phone, and fax	88.8	8.4	13.9	71.3	29.4	16 – 6	7	10	83
	ARDEN INDUSTRIAL PRODUCTS (AFAS) St. Paul, Minn. 612-490-6800 Nuts, bolts, screws, washers, rivets, clips, and clamps for industries	78.0	3.8	20.4	166.5	23.7	14 – 6	7	11	45
	TESSCO TECHNOLOGIES (TESS) Sparks, Md. 410-472-7000 Distributes wireless communications products such as mobile phones	74.5	2.5	22.8	44.5	30.2	20 – 14	18	27	71
7	**ORBIT SEMICONDUCTOR** (ORRA) Sunnyvale, Calif. 408-744-1800 Semiconductor design, manufacturing, and engineering support services	47.5	5.1	29.6	395.4	17.6	19 – 7	15	18	92
	CLINICOM (CLIN) Boulder, Colo. 303-443-9660 Information solutions for helping health-care providers manage patient care	35.4	5.5	68.0	120.9	16.5	22 – 8	20	32	169
	RIVER OAKS FURNITURE (OAKS) Fulton, Miss. 601-862-7774 ● Furnish with a flourish: It makes living-room furniture for department stores	107.8	4.5	51.7	65.2	23.4	19 – 11	12	14	65
	PERCEPTRON (PRCP) Farmington Hills, Mich. 810-478-7710 Designs, develops, makes, and markets measurement sensors for manufacturing	27.8	5.8	28.8	78.9	26.5	25 – 14	19	15	80
1	**SAFETYTEK** (SAFE) Fremont, Calif. 510-226-9600 Vital signs monitored: Sensor-based instruments for the safety and health markets	30.8	3.1	48.8	137.4	17.6	12 – 7	11	12	35
2	**ZEBRA TECHNOLOGIES** (ZBRA) Vernon Hills, Ill. 708-634-6700 ● Stripes, not solids: Makes bar-code printers and specialized labels	119.5	23.5	34.4	27.5	28.0	47 – 26	46	24	552
3	**MAPINFO** (MAPS) Troy, N.Y. 518-285-6000 Manufactures and develops desktop mapping solutions	36.0	4.1	62.8	122.7	16.6	32 – 15	30	42	165
4	**ATC ENVIRONMENTAL** (ATCE) New York City 212-353-8280 Environmental consulting; in-house labs for water, air, and metals testing	33.6	3.1	48.3	197.1	15.5	19 – 9	17	31	92
5	**ST. JOHN KNITS** (SJK) Irvine, Calif. 714-863-1171 ● Designer and maker of high-end women's knitwear, also jewelry	137.0	16.1	24.8	40.8	28.7	37 – 24	35	18	284
6	**URBAN OUTFITTERS** (URBN) Philadelphia 215-564-2313 ● This chain outfits the in set: Clothing and specialty items for the home	110.1	10.8	36.6	69.9	24.8	31 – 19	21	17	180
7	**PHOENIX TECHNOLOGIES** (PTEC) Santa Clara, Calif. 408-654-9000 Supplies system-level software to PC makers and Phoenix-brand software to PC users	66.5	21.4	17.1	196.6	21.7	9 – 4	8	5	109

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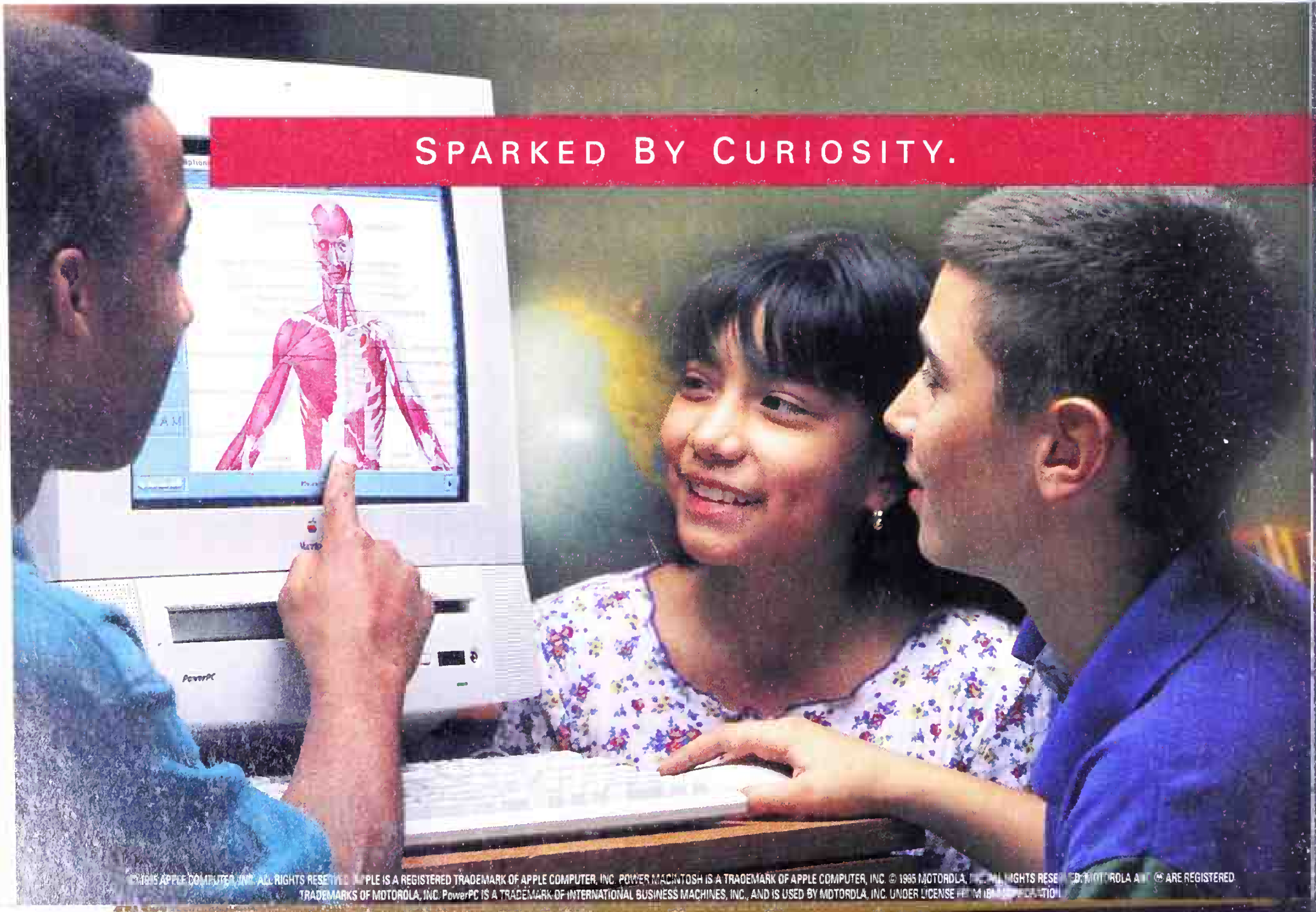
MOTOROLA
Semiconductor Products Sector

HOT GROWTH COMPANIES

	COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA			
		SALES $ MIL.	EARNINGS $ MIL	INCREASE (%) SALES	INCREASE (%) PROFITS	RETURN ON CAPITAL	STOCK PRICE 52-WEEK HIGH - LOW	STOCK PRICE RECENT	P/E RATIO	MARKE VALUE $ MIL
78	**JACK HENRY & ASSOCIATES** (JKHY) Monett, Mo. 417-235-6652 ● In-house integrated computer systems for banks, financial institutions	41.6	7.5	24.3	41.4	28.6	12 – 7	11	18	130
79	**PORTEC** (POR) Lake Forest, Ill. 708-573-4600 Railroad and construction equipment and materiel	97.6	6.9	13.8	110.1	26.3	15 – 11	12	8	49
80	**BOLLINGER INDUSTRIES** (BOLL) Irving, Tex. 214-445-0386 ● Treadmills and recumbent bicycles; orthopedic soft goods, too	70.4	3.8	46.4	47.9	24.7	16 – 7	8	8	28
81	**FEATHERLITE** (FTHR) Cresco, Iowa 319-547-6000 From livestock to race cars, their aluminum trailer-truck bodies will carry it	64.6	4.3	33.9	96.3	22.5	11 – 7	9	10	56
82	**GENTEX** (GNTX) Zeeland, Mich. 616-772-1800 Electro-optical products, such as automatically dimming rear-view mirrors	94.6	17.0	48.6	105.4	19.0	30 – 17	19	19	318
83	**NOBILITY HOMES** (NOBH) Ocala, Fla. 904-732-5157 Manufactures and sells factory-constructed homes, erected on site	23.8	1.1	37.5	206.0	15.8	13 – 7	8	8	10
84	**DIODES** (DIO) Westlake Village, Calif. 805-446-4800 Producer and distributor of rectifiers and other semiconductor devices	43.7	2.9	43.8	160.2	16.2	10 – 4	8	15	38
85	**XCELLENET** (XNET) Atlanta 404-804-8100 Software that exchanges information with remote and mobile computer users	27.7	3.8	91.7	105.8	14.3	33 – 7	24	51	169
86	**ANCHOR GAMING** (SLOT) Las Vegas 702-433-0017 A winner! It operates gaming machines and two casinos in Colorado	90.7	14.5	35.6	48.8	25.9	20 – 11	16	13	182
87	**TRANSMEDIA NETWORK** (TMNI) Miami 305-892-3300 ● Their cards take 25% off the tab at restaurants here and abroad	65.1	5.0	56.8	61.2	20.6	14 – 8	12	24	117
88	**AMRION** (AMRI) Boulder, Colo. 303-530-2525 ● Develops, manufactures, and markets vitamins and nutritional supplements	29.3	2.4	54.2	68.7	20.5	12 – 6	10	20	48
89	**PMT SERVICES** (PMTS) Nashville 615-254-1539 Electronic credit-card authorization and payment systems	68.4	3.2	34.1	89.1	21.9	14 – 8	14	23	91
90	**GULF SOUTH MEDICAL SUPPLY** (GSMS) Ridgeland, Miss. 601-856-5900 Wholesale distributor of medical supplies to the long-term-care industry	92.0	6.7	44.2	51.6	23.2	45 – 23	42	42	285
91	**WATSON PHARMACEUTICALS** (WATS) Corona, Calif. 909-270-1400 Maker of generic pharmaceuticals for wholesale distributors	93.9	20.5	58.4	128.0	15.1	33 – 16	31	27	532


SPARKED BY CURIOSITY.

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T GROWTH COMPANIES

COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA			
						STOCK PRICE			
	SALES $ MIL.	EARNINGS $ MIL.	INCREASE (%) SALES	INCREASE (%) PROFITS	RETURN ON CAPITAL	52-WEEK HIGH - LOW	RECENT	P/E RATIO	MARKET VALUE $ MIL.
FUSION SYSTEMS (FUSN) Rockville, Md. 301-251-0300 A semiconductor equipment supplier that also makes ultraviolet curing systems	88.1	18.7	36.0	84.6	21.3	35 – 15	31	12	237
ORTHOPEDIC TECHNOLOGY (ORTH) Tracy, Calif. 209-832-5200 Manufactures and distributes orthopedic supplies internationally	16.7	1.1	9.6	394.6	17.6	6 – 4	5	16	18
WILLIAMS CONTROLS (WMCO) Portland, Ore. 503-684-8600 Electronics, components, and consumer products for the transportation biz	49.5	4.5	36.3	89.7	19.7	4 – 2	4	13	58
EIS INTERNATIONAL (EISI) Stamford, Conn. 203-351-4800 ● For high-volume telephone use, automated outbound call management	68.8	8.3	51.0	75.7	17.8	18 – 9	17	17	148
HILITE INDUSTRIES (HILI) Carrollton, Tex. 214-466-0475 Electromagnetic and hydraulic clutches and brake valves, pulleys, and fan parts	44.7	3.4	20.9	60.5	26.1	9 – 6	7	9	32
JEAN PHILIPPE FRAGRANCES (JEAN) New York City 212-983-2640 ● Scent-sational! Domestic and international brand-name fragrances	75.1	7.3	42.7	58.3	21.2	12 – 7	9	13	92
NOBLE ROMAN'S (NROM) Indianapolis 317-634-3377 You don't have to go back to the old country for good pizza	30.5	1.5	62.9	87.6	15.4	7 – 5	5	14	21
ROPER INDUSTRIES (ROPR) Bogart, Ga. 706-369-7170 ● Manufactures pumps and industrial-control equipment	148.5	20.2	30.7	77.4	19.5	29 – 18	27	20	400
COHERENT COMMUNS. SYSTEMS (CCSC) Leesburg, Va. 703-729-6400 No echo. Digital and acoustic echo-cancellation technology	34.2	4.8	23.3	107.4	18.6	25 – 6	20	30	134

PHABETICAL INDEX COMPANIES

e number that follows
ch company name
licates its ranking
the table

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Amrion	88
Anchor Gaming	86
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Applied Innovation	8
Applied Voice Tech.	59
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ATC Environmental	74
Bollinger Industries	80
Brooks Automation	46
BTG	52
Cambridge Tech. Partners	12
Catalina Marketing	63
COP Technologies	14
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Champion Industries	61
CIOCO	5
CliniCom	68
CMG Information Services	21
Coherent Communs. Sys.	100
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Oaig	20
Deckers Outdoor	31
Decorator Industries	60
Diodes	84
EIS International	95
Elcotel	2
Electroglas	56
Electronics, Missiles	27
Electronics for Imaging	49
Employee Solutions	9
ENCAD	19
Featherlite	81
FORE Systems	4
FTP Software	23
Fusion Systems	92
GaSonics International	29
Geerlings & Wade	7
Gentex	82
Gulf South Medical Supply	90
Happiness Express	1
Henry (Jack) Associates	78
Hilite Industries	96
Hirsch International	37
Image Entertainment	39
INSO	18
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Jalate	11
Jean Philippe Fragrances	97
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Lund International	45
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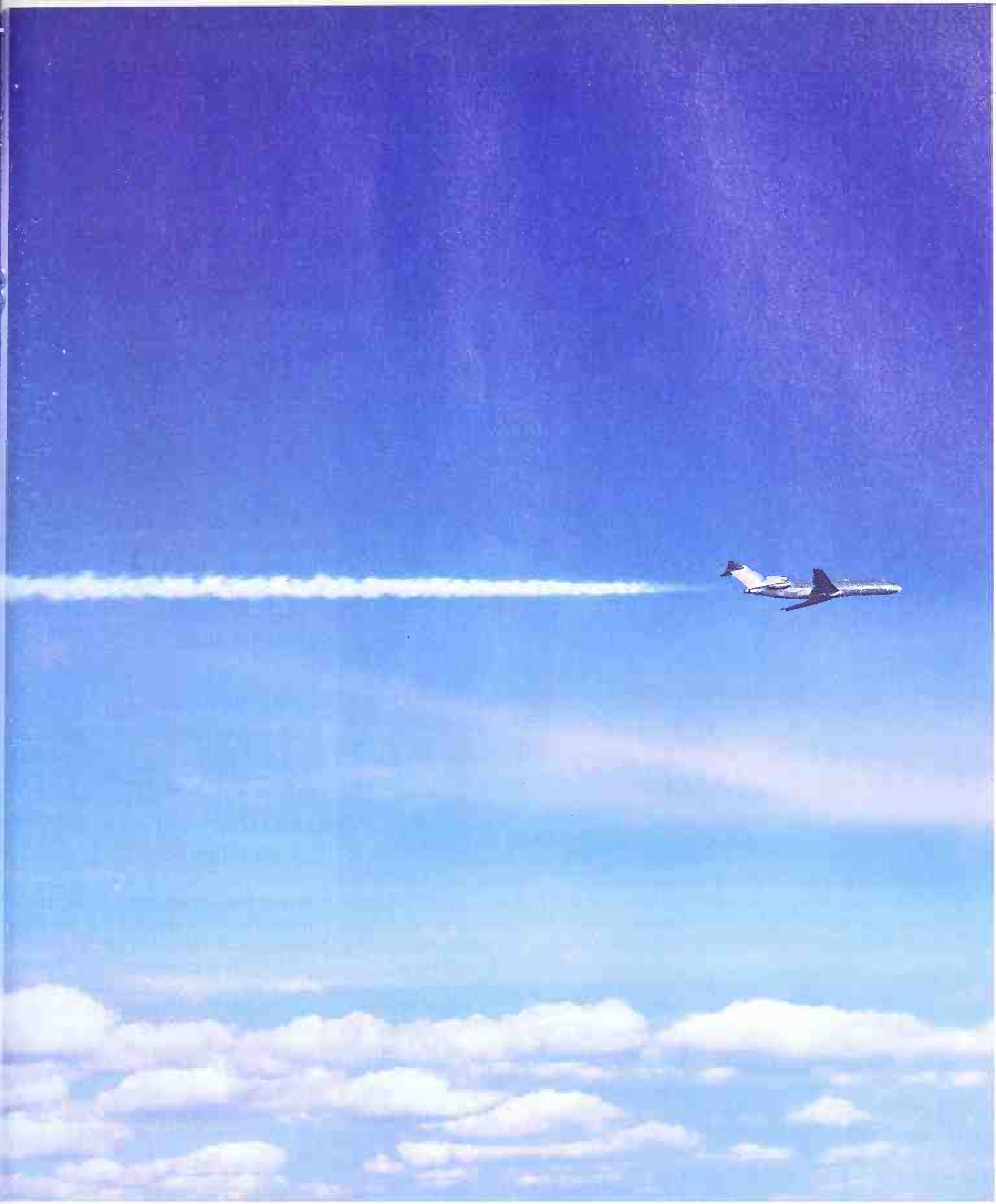

tream, we also act as one of its primary foreign exchange partners. And we provide primary and excess roperty/casualty insurance for its buildings and aircraft, fidelity and international insurance coverages. Products and ervices for which more and more corporations are heading in AIG's direction. For the definitive response to risk.

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CRUSADERS

NO TIME FOR TEARS

Racing to save his sons, Brad Margus is all business

THE MARGUSES With one hand, Brad runs a shrimp business. With the other, he and Vicki seek a cure for Quinn (left) and Jarrett (right)

When the news came—the news he both dreaded and expected—Brad Margus was away on business, visiting customers of his shrimp-processing company. His wife, Vicki, heard first. Two of their three boys, Jarrett, 4, and Quinn, 2, had ataxia-telangiectasia, or A-T. If the disease progressed as expected, they would be dead by age 20.

TV movies prime us to expect miracle cures and happy endings from such circumstances. In life, more often, a devastating disease hits, a family grieves and learns to cope, and eventually, inexorably, the illness prevails. If the disease picks on the children of a Brad Margus, though, the killer is in for a fight.

GENE HUNTING. Brad and Vicki Margus grieved for about six weeks. Then they got busy. Within four months, they formed the nonprofit A-T Children's Project. Working nights and weekends while running his company, Kitchens of the Oceans Inc., Brad Margus recruited top scientists worldwide to do research, tapped companies for funding and gene-hunting gear, lobbied Congress, and built a database of victims of the little-known disease. Eighteen months later, the A-T Children's Project has funded $1 million in research, sponsored three conferences attended by researchers from around the world, begun collecting victims' blood samples, and helped found a clinic at the Johns Hopkins Hospital. Says J. Craig Venter, head of the Institute for Genomic Research: “I've nev seen anyone do so much in so litt time.”

CHASING A CHILD KILLER

NAME Ataxia-telangiectasia, or “A-T.”

SYMPTOMS Around age 2, muscle control deteriorates. Cancer, immune deficiencies common. Victims wheelchair-bound by 10, totally disabled in teens. Fatal by 20.

VICTIMS At least 600 U.S. children; 1% of population are thought to be carriers. Gene may be a factor in thousands of cancer cases.

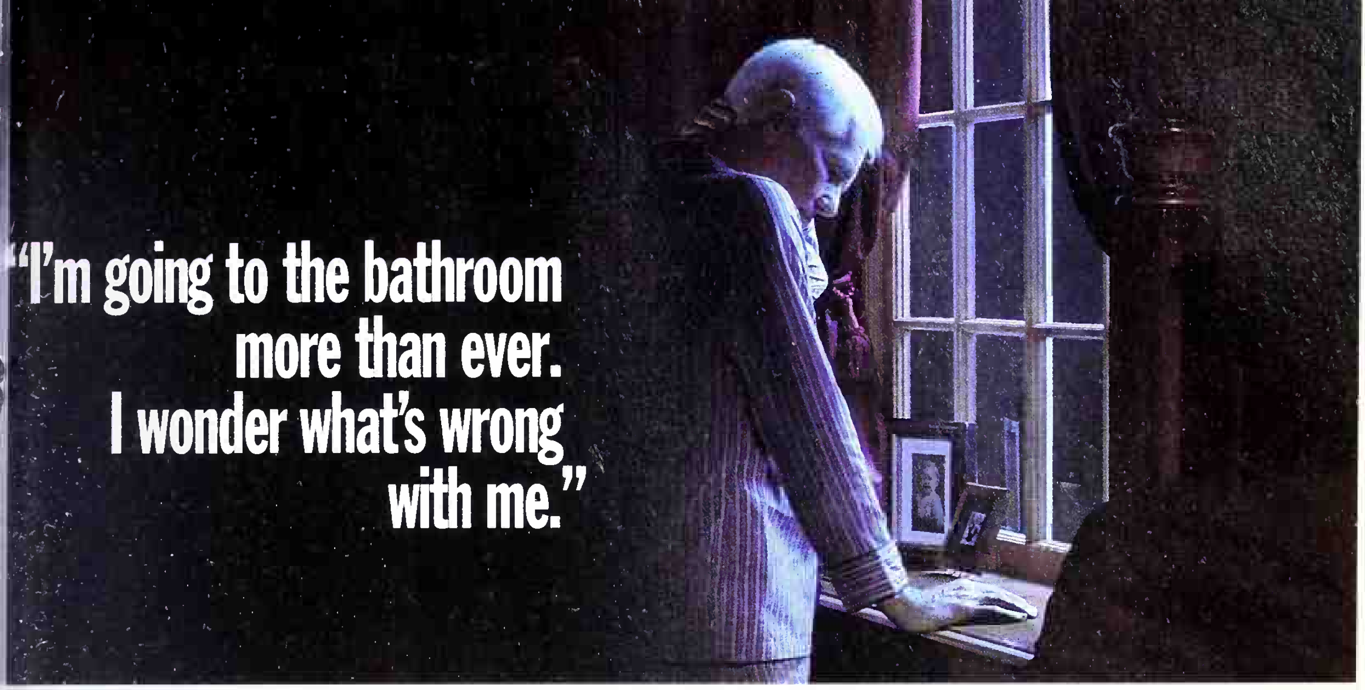
OUTLOOK Gene that causes disease may be identified in a year. Developing a cure will take years.

For Brad Margus, 34, it's all in a 1 hour day's work. Confronted with crisi he fell back on what he knew best: bu ness. Growing up in Tokyo, Margus fir carried a briefcase as a four-year-o traveling with his father, Al, who r H.J. Heinz Co.'s Asian operations. I 1971, his father joined the Deerfie Beach (Fla.) processor now called Kitc ens of the Oceans, and the family r turned to the U.S. Brad peeled his fir shrimp at 11, bulked up for high scho football by toting 70-pound cases crustaceans, and designed a shrimp-pe ing table at 16. While earning an MBA Harvard University in 1985, he track the shrimp company's numbers via con puter hookup. Before graduating, h helped his father engineer a $5 milli management-led buyout.

For a time, lif was idyllic. Margus wed Vick whom he had me at a Harvard con puter lab. The had three son and moved int a four-bedroor home on a five acre spread outside Boca Rator Brad took ove Kitchens' operations as his fathe moved toward retirement, and the con pany thrived. He built a network c suppliers in Indonesia and Thailand an invested in a processing joint venture i Ecuador that let him halve his U.S workforce while boosting production. I 1993, sales jumped 27%, to $57 millior and profits climbed 8%.

Then Jarrett, the middle son, bega bumping into walls and falling down lot. A neurologist ascribed the probler to a birth accident and said it wouldn' grow worse. First son Cole had no balance problems, but when Quinn bega to walk, he was clumsy, too. The problem was obviously genetic.

Batteries of tests followed. A-T i rare—there are only about 600 know U.S. victims—and it's often misdiagnosed as cerebral palsy. But cerebra palsy, for all its cruel consequences, ha nothing on A-T. Children with A-T begi losing balance around age 2 and hav slurred speech when they start talking Loss of muscle control usually put them in wheelchairs by about 10. B 15, they can't move their eyes to read Cancer and immune deficiencies ar


"I'm going to the bathroom
more than ever.
I wonder what's wrong
with me."

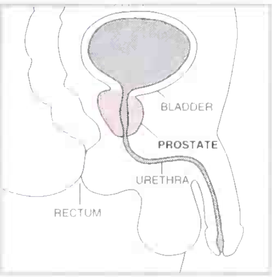
Your urinary symptoms may be caused by a condition called benign prostate enlargement or BPH. BPH is not cancer and does not lead to cancer, although the two conditions can exist at the same time. Remember, only a doctor can evaluate your symptoms and their possible causes.

Today, symptomatic BPH can be treated by your doctor in several ways. The options are monitoring the condition with regular checkups, surgery, or oral medicines. One oral medicine is PROSCAR, the only prescription medicine for the treatment of symptomatic BPH that can shrink the prostate.

Is this you?	Yes	No
Do you get up more than once or twice a night to urinate?	☐	☐
Do you often have sudden, uncontrollable urges to urinate?	☐	☐
Do you have a hesitant or slow urine stream?	☐	☐
Do you have a frequent need to urinate?	☐	☐

If you answered yes to even one question, tell your doctor.

PROSCAR works by blocking a hormone that can cause the prostate to enlarge. *But it is important to know: PROSCAR doesn't work for everyone. Although the prostate may shrink, there may not be an improvement in urinary symptoms. However, in clinical studies with PROSCAR, some men have seen an improvement in their urinary symptoms after 2 weeks. Others have found that PROSCAR took up to several months to help them.* Because all men are different, you and your doctor will need to determine how PROSCAR is working for you.



The prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.

If you have any urinary symptoms, see your family doctor or a urologist soon, and ask about PROSCAR. **For free information to help you discuss your symptoms with your doctor, call 1-800-261-5563.**

For the treatment of symptomatic BPH

PROSCAR® 5mg
(FINASTERIDE)

The only medicine that can shrink the prostate.

Please see the patient information on the next page.

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J4PO44R(302)-MKP4076-5563

PATIENT INFORMATION ABOUT PROSCAR® (Prahs-car)
Generic name: finasteride (fin-AS-tur-eyed)

PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.
Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?
BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH
There are three main treatment options for BPH:

- **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.
- **Medication.** Your doctor may prescribe PROSCAR for BPH. See **"What PROSCAR does"** below.
- **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does
PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

What you need to know while taking PROSCAR

- **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.
- **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

  Some men taking PROSCAR® (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function. Rarely, some men have reported breast swelling and/or tenderness or allergic reactions such as lip swelling and rash.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

- **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.
- **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.
- **A warning about PROSCAR and pregnancy.**

  PROSCAR is for use by MEN only.

  PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

  If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

Sexual contact. Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

Handling broken tablets. Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR. PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted.

Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR
Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT 'PROSCAR' AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.

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People

common. Victims rarely live beyond 2
The Marguses spent $60,000 searc
ing for a diagnosis, consulting specialis
in Miami and New York, and sendi
skin and blood samples to Seattle a
Chicago. Finally, a French neurologi
visiting Miami Children's Hospital d
agnosed A-T. "That was the bad on
the worst diagnosis anyone would su
gest," recalls Al Margus. Brad though
he was prepared for the worst b
found he wasn't. "The first month aft
the diagnosis," he says, "it's almost li
you grieve the death of the sons y
thought you had."

Then his business training kicked i
First, he decided, he needed basic r
search. He began reading chemistry a
genetics texts and recruited Leon Kap
a molecular biologist at the Universit
of California at San Francisco, to tut
him through a nightly exchange of fa
es. He also wrote to 160 venture-capit
firms and 40 biotech companies, su
gesting that since A-T is linked to cance
A-T research might lead to a lucrati
screening test for cancer. None bit.

FREE TICKETS. With no research fundin
in sight, Brad and Vicki formed the A-
Children's Project, eschewing the nam
"foundation" because it implied perm
nence. Working at side-by-side compu
ers in their family room, they deve
oped a plan by benchmarking the wor
of other foundations. After identifyin
experts through medical literature dat
bases, Brad met with top cell biologist
chemists, and geneticists. He solicite
every foundation and trust that had d
nated to medical research, not only i
Florida but in California and Ne
York—where the money is—the
worked Harvard B-school's alumni d
rectory so hard the school ordered hi
to stop.

The campaign began to bring result
Although most funding still comes fro
family and friends, it was a coup whe
noted geneticist David Cox signed o
as scientific adviser. Margus got his firs
conference off the ground in part b
sending researchers free airline tick
ets—thanks to a former classmate wh
created a bank for donations of fre
quent-flier miles.

There have been disappointments. A
ter locating the top six A-T research
ers, Margus was discouraged to lear
that two aren't on speaking terms. Thi
year, he canceled four grants becaus
the researchers weren't focusing inten
sively on A-T. Now, Margus reviews eve
ry recipient's progress after six months

To sustain momentum, Margus em
ploys a "critical path" approach to antic
ipate needs several steps beyond th

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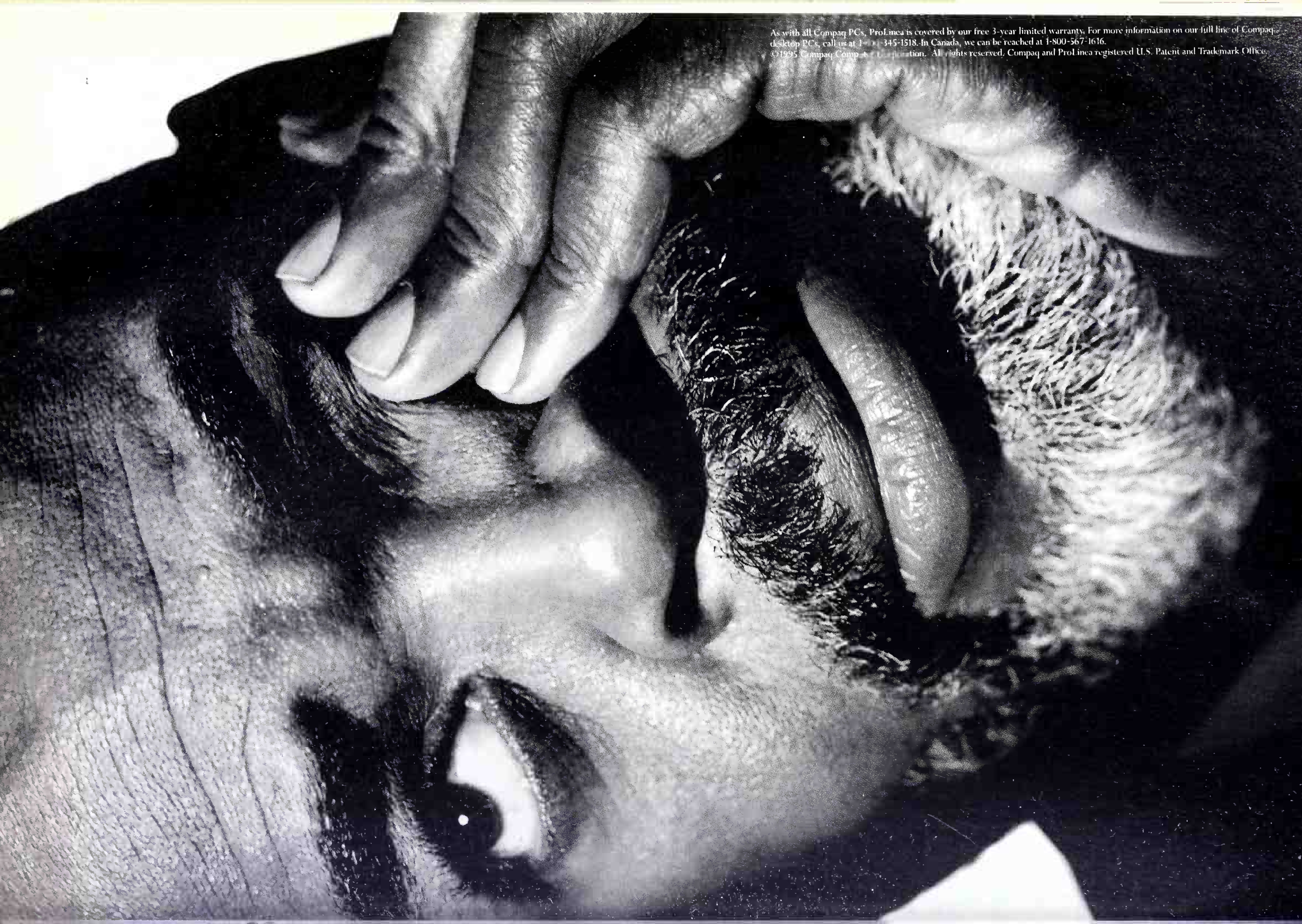

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present. "Brad flow-charts his entire life," says Vicki, seated at a desk in the Project's new offices in Boca Raton. While scientists hunt the A-T gene—one using an $80,000 gene sequencer donated by Perkin-Elmer Corp.—Margus is already contacting protein experts who would help develop gene therapy. He has established a bank of blood samples at Coriell Cell Repositories in Camden, N.J., and has opened channels to regulators to speed human trials once a therapy is developed. Researchers expect the A-T gene to be found within a year. Developing a cure will take years more. "It's not crazy to say that a therapy in five years is possible," says Cox. On the other hand: "How many people have succeeded in doing this? Zero."

"DOUBLE LIFE." All the while, Margus has worked to keep Kitchens of the Ocean afloat. Under tremendous stress and operating on little sleep, he says he can be short-tempered and impatient at work. "Someone's complaining to me about a tough sale, and I'm thinking, 'You're marginal, pal. For what I'm paying you, I could be funding some great scientist,'" he says.

Margus concedes that the company has suffered. When a market developed for high-end shrimp sales at retail, he was slow to respond. Reducing his international travel also slowed his move into shrimp-farming in Ecuador. When he travels now, Margus tries to visit an A-T family and a researcher or lab. "You should be thinking about your business from the time you step into the shower until you go to bed," he says. "But sometimes now, it seems a little trivial."

> "Sometimes now," Brad says, the shrimp company "seems a little trivial"

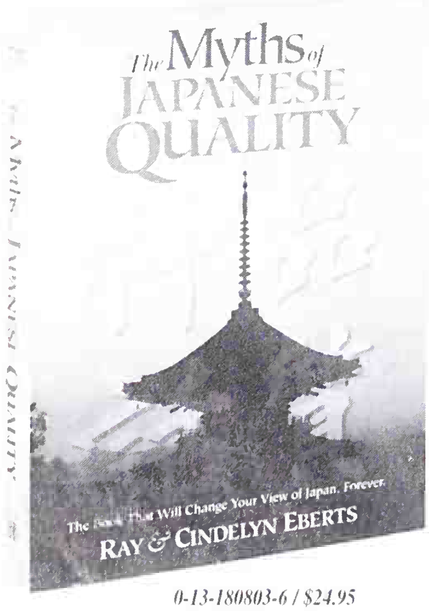
Even so, customers say, Margus doesn't neglect details. "He leads a double life. I don't know how he does it," says Roger D. Anderson, president of Seafood Partners Inc., whose unsolicited $1,000 donation was the Project's first nonfamily contribution. "He could use his situation as an excuse, but he chooses not to," says Joseph Leahy, senior seafood buyer for Red Lobster restaurants. To help keep the company on
even keel, Al Margus, 68, has return
to work nearly full-time.

Brad Margus doesn't know, of cour
if his efforts will pay off in time to he
his sons. Home from work at 6:30 o
recent evening, he watched Cole, now
and Jarrett, 6, chalk a large portrait
Vicki on the driveway. It was complet
down to the baby growing inside he
It's a surprise pregnancy, and doctor
say the child won't have A-T. Quin
dragged a tumbling mat onto the gras
and, following Cole's lead, Jarrett an
Quinn, 4, did their best to turn some
saults. Laughter rolled off the mat.

The parents clearly savor the boy
efforts. And they hope—against hop
perhaps—that their own strivings ma
make such scenes possible for longe
than is likely. Margus doesn't ignore th
disease's timetable. "It's my nature t
consider all the scenarios, so I don
blank out the scenario that we won
succeed," he says. "The consolation is,
course, that the work we're supportin
will eventually help a lot of kids. It
not wasted effort at all." It's a dam
nable consolation to accept.

By David Greisin
in Boca Raton, Fl

QUALITY WARS:
MYTH VS. REALITY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The Book That Will Change Your View of Japan. Forever.
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0-13-180803-6 / $24.95
Published by Prentice Hall PTR

MYTH: Japanese workers are more productive.
REALITY: U.S. workers are 30% more productive.
MYTH: More U.S. cars are recalled.
REALITY: In 1993 Hondas were recalled 13 times more than GM products.
MYTH: The Japanese education system makes their society more competitive.
REALITY: Japanese schools instill conformity, not innovation, and Japanese corporations are stagnating and failing in new markets as a result.

Startling conclusions perhaps, but the authors of this provocative critique found 10 big myths about Japanese quality that didn't hold up under the scrutiny of their new research. They found badly made products everywhere ... an economic system that discourages improvement ... and the quality theories of W. Edwards Deming doing more damage than good. It's a controversial thesis. But anyone who assumes that Japanese products are superior —or that the Japanese offer a model for American corporations and schools—will find this work impossible to ignore.

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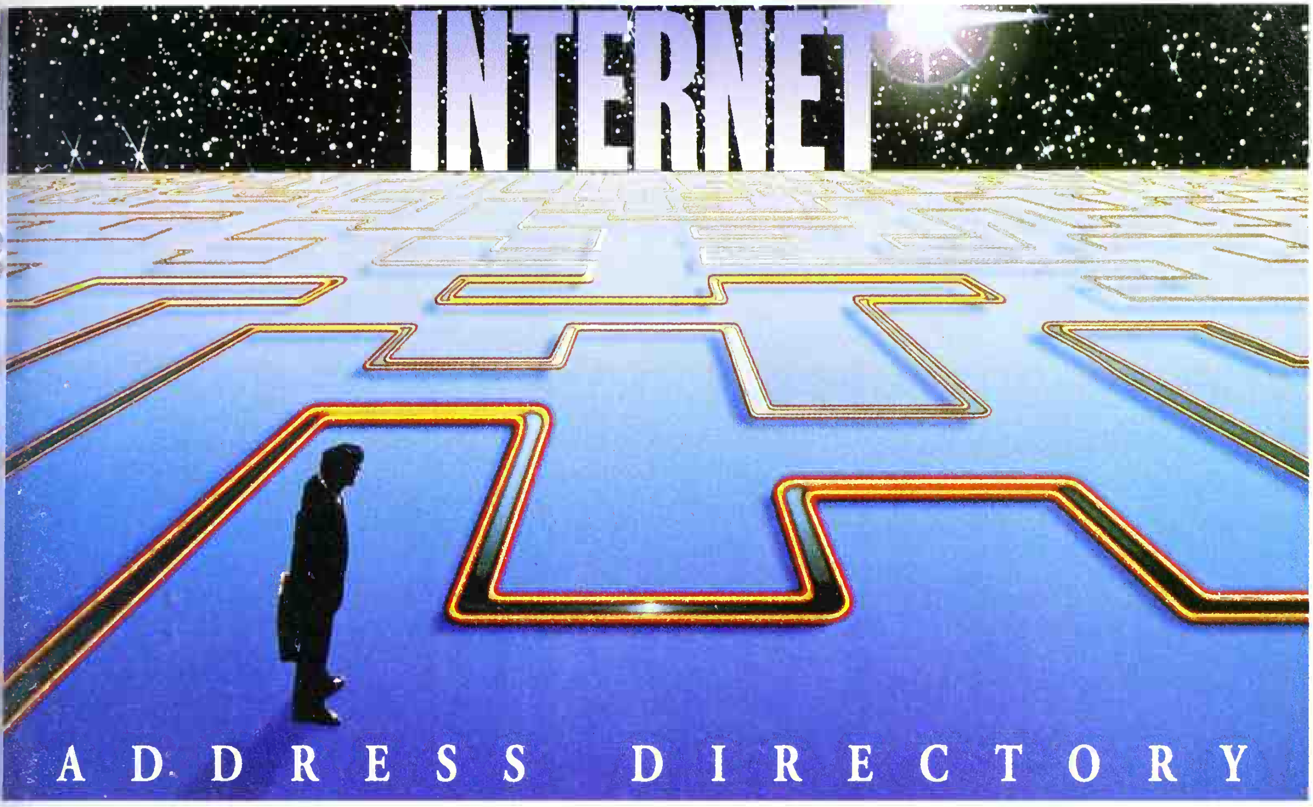

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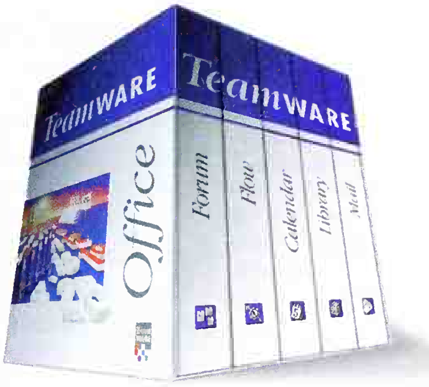

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TELEVISION

AND NOW, A SHOW FROM YOUR SPONSOR

Ad-free media and too-racy fare have marketers rushing to make their own TV programs

Tide
with BLEACH

PHIL COLLAS

Procter & Gamble Co. once turned out more TV shows than any Hollywood studio. Its production arm made or bought everything from westerns to game shows, and its dominance in daytime dramas christened the genre "soap operas." Although P&G Productions still cranks out 765 hours of *The Guiding Light*, *Another World*, and *As the World Turns* each year, it long ago ceased to be a factor in prime time. As production and ad costs rose, P&G found it cheaper to leave show biz to Hollywood and just sign on for commercials.

Now, though, Procter is plunging back into programming in a big way. In March, Chairman Edwin L. Artzt announced a three-year alliance with Paramount Television Group, maker of *Frasier* and *Wings*, to develop shows for network TV and first-run syndication. Outsiders figure the deal will cost Procter $120 million or more. That's not huge compared with the packaged-goods giant's $3 billion yearly ad budget, but Procter promises more deals to come.

P&G isn't the only advertiser tuning into the TV business. Television Production Partners, a consortium of nine brand-name marketers formed early last year, aired its fourth show in April and expects to spend $30 million over the next year and a half. Hallmark Cards Inc. paid $365 million last year to acquire RHI Entertainment Inc., a leading independent producer of TV miniseries and movies, including Hallmark's wholesome *Hall of Fame* productions. Wendy's International Inc. is aggressively seeking family-oriented projects the fast-food chain can help bring to the airwaves.

PC PLAGUE. Why are so many of the nation's biggest marketers suddenly starstruck? Procter says it worries that the flood of new media may wash traditional ad-sponsored programming away, leaving it no place to run its commercials unless it owns some of the shows. Procter fears a world in which CD-ROMs, the Internet, pay-per-view, interactive-game channels, and other ad-free media further atomize the mass audience that was once divided neatly among the three networks. Others worry about the dearth of family-oriented shows.

But there's anothe less complicated re son: cold hard cas Like everyone fro Sony Corp. to Se gram Co., soap-se ers and greeting-ca merchants see t booming entertai ment industry as gold rush they'd be ter get in on.

Indeed, if there one thing everyboc agrees on when comes to the ne media, it's that all the different pla forms under co struction are goir to require a heck a lot of new conten Already, demand—and potential pro its—are growing. The back-end rev nues alone from a hit show can be stu ning: Paramount's *Cheers*, for instanc fetched more than $400 million in synd cation for its first three years. Its var ous *Star Trek* shows bring in more tha $1 million an episode overseas. And c the cost side, an advertiser luck enough to produce the next *ER* ma have more clout at the bargaining tab when it comes to buying airtime, esp cially in foreign markets.

P&G's Artzt has emphasized broade

READY FOR PRIME TIME

Advertisers are plunging into programming

TELEVISION PRODUCTION PARTNERS A consortium of nine major advertisers, including AT&T, Coca-Cola, and GM, will spend $30 million over 18 months making movies, specials, and limited-run series.

PROCTER & GAMBLE The original "soap opera" sponsor has a three-year deal with Paramount to develop network and first-run-syndication programming.

WENDY'S The fast-food chain is backing production of *Derby*, a two-hour ABC movie to be aired in June.

HALLMARK It bought RHI Entertainment, a miniseries and movie producer, for $365 million last year.

als to explain his company's renewed erest in Hollywood. He warned in a ghly publicized speech to ad agencies t May that new media threaten mass vertising—and with it, P&G's ability sell its 50 million tubes of Crest each ar. As he told another trade group Mar. 10, just days after announcing e Paramount deal: "I firmly believe at unless advertisers participate in e development of new programming, 're not going to have much to say out how new programs get paid for." octer's agreement with Paramount arantees access to advertising time ierever the programs are shown.

ILD RUSH. But while the networks ve already seen their share of the dience erode, a commercial-free fu- re is still a long way off. And even me of those fashioning the new media stems point out that they'll need ad- rtising, too, to be economically viable. ven within P&G, not everyone believes threat to access was the primary force iving the Paramount deal. "The party e is, they're doing this for access, but s not a bad business proposition," tes one source close to Procter.

Procter knows that already. In 1990, helped put *Northern Exposure* on the and won cheap airtime on a hit show the bargain. Procter agreed to pay rt of CBS Inc.'s license fee to Univer- l Pictures for the eight initial epi- des and to advertise on them without guarantee of audience size. In return, got a 10% discount on three 30-second s every week for four years. It also s undisclosed rights for syndication d other revenue-generating deals. G's role as a fixer in *Northern Expo- re* was a lucky, one-shot deal far naller than its Paramount venture. it it's an indication of the possibilities.

First, though, Procter and Paramount we to get their shows on the air. In eir initial collaboration, P&G is putting some of the cash to produce a ver- on of the studio's *Entertainment To- ght* in Germany. In return, it will get share of the license fee, along with me advertising time. Meanwhile, in e U.S., P&G and Paramount hope to rike a deal with one of the networks. he network would get a break on the ense fees of shows the partners hope produce, while Procter would get re- iced rates on its ad spots. Procter esn't envision taking most of the ad me on any single show since that ould take up too much of its budget.

Such a deal is far from a sure thing, owever. Broadcasters may well balk the idea of an entrenched ad-rate scount. "No network is going to want institutionalize a benefit for an adver- ser," says one industry veteran. And roducers might shy away from doing

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COLUMBIA BUSINESS SCHOOL

COLUMBIA EXECUTIVE PROGRAMS

business with a giant advertiser th could attempt to dictate the content tone of a show. P&G ad chief Robert Wehling contends that Paramount "ca make whatever they want" and th P&G will simply opt out if a particul program is inappropriate. According Wehling, P&G isn't even telling Par mount to aim its shows at men or wor en or younger or older audiences.

BIG GUNS. For other marketers, hov ever, gaining more control over th shows that carry their commercials is a important reason for their involveme in programming. On June 17, Capit Cities/ABC will show *Derby*, a two-hou movie about an adopted girl who race in the Kentucky Derby. The show wa developed with an up-front sponsorsh commitment from hamburger chai Wendy's. "We believe there's a mark for and a need for family-oriented pr gramming," says Charles W. Rat Wendy's marketing chief. *Derby* is base on a script Rath wrote 15 years ag but he doesn't foresee more screenwri ing credits in his future.

Advertiser involvement in program ming seems certain to grow. Nine giar marketers—AT&T, Campbell Soup, Coca Cola, Clorox, Coors, General Motor McDonald's, Reebok International, an Sears Roebuck—have joined Televisio Production Partners, a new venture t develop movies, specials, and limited run series. Each advertiser choose which programs it wants to be involve in and takes a portion of the commercia spots. One recent project, *Hank Aaron Chasing the Dream*, aired in April an garnered a respectable 4.6 rating.

Some marketers remain leery c plunging too deeply into programming After all, making a hit show is far di ferent from making soap flakes: Onl one in five shows makes it to the secon year. Michael Neavill, media director a AT&T, sees Television Production Part ners as one more way to get good a spots at good rates, but he's not read to join the entertainment industry. "Th networks spend $400 million to $50 million a year in developing pilots fo new series, and their success rate i 15%," he notes. "I look at that and say 'Wait a minute, we're in the telecom munications business. Why do I wan to get into the programming busines when the people who have the experi ence are only right 15% of the time?' Sure, trying to come up with a hit show is risky. But some big advertisers figur not trying could be even worse.

By Zachary Schiller in Cincinnati with Ron Grover in Los Angeles and bureau reports

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BROADCASTING

EVERYBODY'S TALKIN' AT US

Gab radio is a godsend for AM, though few hosts have Rush Limbaugh's Midas touch

Daniel E. Cohen's good fortune began last year when football fans everywhere started asking why all the players seemed to be wearing Band-Aids on their noses. Eventually, word got out that the strips supposedly helped open nasal passages so athletes could get more oxygen. The curiosity spawned 450 articles about Breathe Right Nasal Strips and Cohen's CNS Inc., the Chanhassen (Minn.) outfit that makes them. Better yet, players sporting the strips notched 8 of the 10 touchdowns scored during this year's Super Bowl.

That's all fine. But Cohen's big bonanza came by way of Marta Limbaugh, a rabid football fan herself. Marta was wowed when she tried the strips to alleviate symptoms from her deviated septum. She told her illustrious husband, and Rush told the 20 million people who listen to his syndicated talk show each week. Overnight, Cohen says, sales went crazy. First-quarter revenues came in at $7.1 million, a 460% increase over the fourth quarter. CNS stock began a steep climb from 10 to its current 27. By April, Cohen happily wrote a fat check to sponsor the show twice weekly. "If Rush Limbaugh says to try something, there are a lot of people who will try it," Cohen says. "It's nice to pay for advertising that you can count on."

SCORCHERS. In the colorful history of radio, there has never been anything like Rush Limbaugh. His sway over the millions who tune him in is unprecedented. Not only has it helped turn the political tide sharply to the right but it also has breathed life into AM radio, which many had consigned to the dustheap. The more Limbaugh talks, the more money he and his many business associates rake in. Says David M. Kantor, executive vice-president of ABC Radio Networks: "Rush is in a league by himself."

The mad rush (sorry) to share in some Limbaugh-like success is a big reason America's airwaves are crackling with ever-more scorching dialogue. As right-wing talk radio comes under the microscope in the aftermath of the Oklahoma City bombing, it's easy to forget that the growth of talk radio began with a business proposition. "The agenda is first to get ratings and second to make money," says Michael Harrison, publisher of *Talkers Magazine*, the industry bible.

Indeed, since 1990, the number of stations that devote the bulk of their day t talk has almost tripled, to 1,130 fro 405, according to *M Street Journal*, a other industry publication. Nobody kee count of talk-show hosts, but suffice it t say that a few years ago, G. Gordo Liddy and Oliver North were merel notorious, not notorious radio stars.

The number of people actually clea ing up in talk radio, however, is small than you'd think. Rush and Howard, course, earn huge sums—for themselve their syndicators, and the stations th air them. Limbaugh alone generates $3 million in revenue for his syndicato EFM Media Inc. A second tier of long-established hosts such as Don Imus an

THE ECONOMICS OF TALK RADIO

RADIO STATIONS Almost all talk—except Howard Stern— on the AM band. Many AM stations are losing money or are ma nally profitable. The strongest are the biggest ones, often earn margins topping 40%. Tribune Co.'s WGN in Chicago is king, w estimated revenues of $37 million. Infinity Broadcasting, with stations, has an estimated $322.5 million in 1994 revenue.

BARTER DEALS A station receives a show for no cash but gives the host's syndicator about half the ad time within the s Both the radio station and syndicator sell ad time for a given p gram. Stations get popular national programming without spe ing cash. Syndicators get quick distribution. The risk: that a gi host won't generate enough audience to attract advertisers.

SYNDICATORS/NETWORKS They provide all kinds of pr gramming, not just talk shows, to as many radio stations as th can. Groups include ABC Radio Networks, which produces Paul Harvey and *The Sports Babe*, and EFM Media, with just two sho Rush Limbaugh and Dr. Dean Edell. Westwood One, the biggest syndicator in talk, has Don Imus and G. Gordon Liddy.

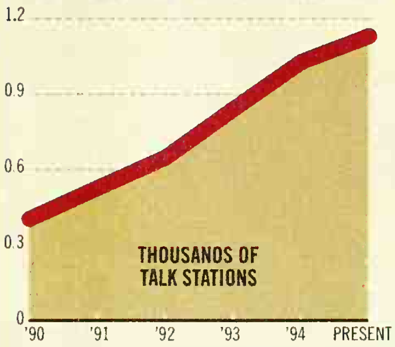
ADVERTISERS Everybody from IBM to the maker of Breathe Right Nasal Strips. Advertisers buy time from syndicators/networks and radio stations. Companies spent $10.6 billion on all radio ads last year. Some 95% of that flowed directly to radio stations. Only 5% flowed to syndicators/networks.

) Grant also earns big bucks. But
n the list drops off quickly. Although
stwood One Inc.—the biggest syn-
ator in talk with 15 shows—takes in
6 million in revenue, only a portion
that comes from talk. Says Steven
man, chief executive of Premier Ra-
Networks Inc.: "There are a few
nificant stars and a lot of planets."

The hard fact is, radio is an unusual-
ompetitive, fractured industry, with
re losers than winners. True, the cost
loing business pales next to television
almost every respect. And a well-
station can easily earn margins
ve 40%, says Michael J. Wolf, part-
at Booz, Allen & Hamilton Inc. The
npetition in radio, however, is much
re acute—especially on the AM band,
ere almost all talk airs. There are
rly 10,000 stations in the U.S., and
st cities have many more than 10 of
m vying for an audience. In TV, there
usually just four or five stations to a
rket, so the pie can be divided into
ger, more lucrative pieces.

ames Duncan, who publishes statisti-
reports on the industry, figures only
hird of all radio stations earn "sub-
ntial" profits, better than 20%. An-
er third, he says, lose substantial
ounts. Stations on AM—which over
years have lost most of the music
iness to the higher-fidelity FM band—suffer most. According to Duncan, half of all stations are AM. But because FM dominates in music, it pulled in 75% of the industry's $10.6 billion in 1994 revenue. AM stations split the remaining 25%, but not evenly. Big, urban news/talk stations such as Chicago's WGN collect most of the revenue, while many smaller stations go begging.

THE TALK RADIO EXPLOSION



*STATIONS THAT DEVOTE MOST OF THE DAY TO NEWS AND TALK
DATA: *M STREET JOURNAL*

It's easy to see why Rush has become AM's perceived messiah. His popularity not only means better ratings for almost all of the 660 stations that carry him but it has heated up interest in talk radio—good news for the many AM stations starving for listeners. Moreover, his nationwide success has shown that radio's traditional dependence on local programming was a costly anachronism. "Radio stations always considered themselves to be local, local, local," says EFM Media founder Ed McLaughlin, the ex-ABC radio executive who discovered Limbaugh in Sacramento, Calif., in 1988 and helped nurture him to fame. "What Rush was doing in Sacramento would be successful in any market. All I did was recognize that."

BARTER UP. Nowadays, with the right host or concept, news and talk radio can generate more revenue than any format on the dial. Because a host generally earns more than a disk jockey, talk is more expensive to produce than music. But since advertisers are convinced people actually listen to talk radio rather than just play it in the background, they'll pay more per rating point for talk. And since talk shows more easily segue into commercials—which are often read by the host—they can accommodate more spots per hour. The bottom line: For a highly rated host, revenues far outweigh costs.

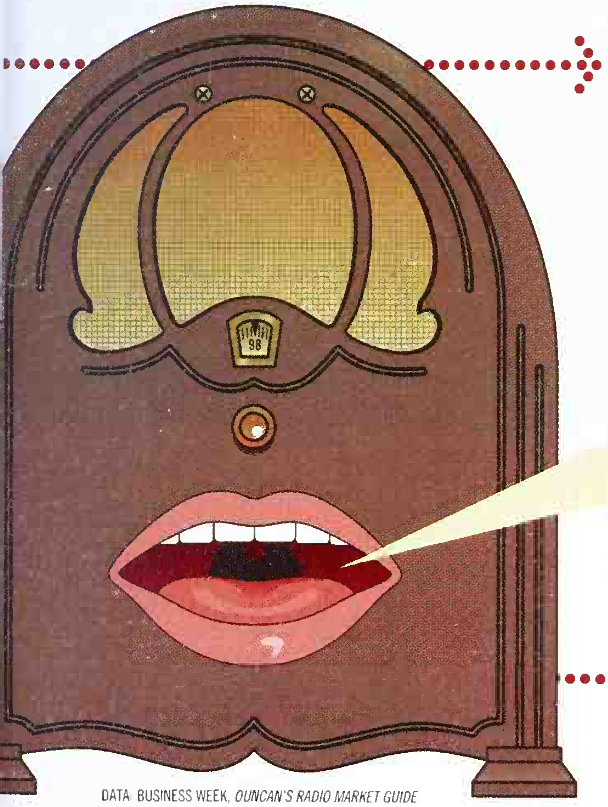
Rush showed that syndication can produce a double benefit: It can provide a local station with a nationally known talk-show host for less cash than it would cost to produce a comparable show in-house. The alchemy that makes this possible is called barter (table). Under such deals, syndicators give stations ready-made programming in return for half of the advertising time on that show. The syndicator then sells that time to advertisers. Stern is the exception to this formula: Infinity Broadcasting Corp., his syndicator, collects cash exclusively. Rush and EFM collect both a fee and ad time. But the majority of talk syndication deals are straight barter.

Cheap satellite technology has helped syndication take off. Since the mid-1980s, the cost of transmission time has dropped by more than half as digital compression has boosted signal capacity. Receiver technology has also become cheaper, meaning more stations can afford to hook up. For a syndicator, this is crucial. The name of the game is to get your host's show on as many stations as possible. The more audience, the more you can charge advertisers.

Syndicators come in all shapes and sizes. The two most successful in talk

EMPERORS OF BLAB

Rush and Howard rule. They both get income from radio, TV, books, and promotional activity. Rush is on 660 stations, Stern is on 20 in major markets. Both send ratings sky-high but also take a piece of their shows' action. Nobody else comes close.



DATA: BUSINESS WEEK, *DUNCAN'S RADIO MARKET GUIDE*

(TOP TO BOTTOM) PHOTOGRAPHS BY KEVIN HORAN/OUTLINE, SWERSEY/GAMMA LIAISON. CHART BY ALAN BASEDEN

how

machine

The machine is
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but nuts, bolts and chips
until infused with
ideas,
thoughts,
notions,
that come to it
through a keyboard.

we

TALK

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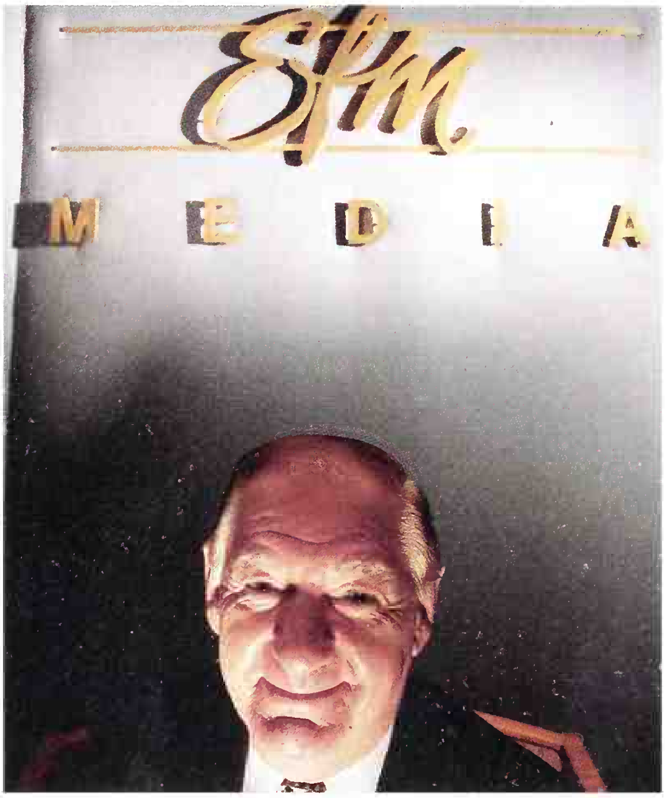
are McLaughlin and Mel Karmazin—another former radio executive turned entrepreneur. He has scored big by linking Infinity, the nation's biggest radio station owner in terms of revenue, with Westwood One. Other big players, such as ABC and CBS, own lots of stations and syndicate all types of programming, but they aren't deeply committed to talk. Those that are—outfits such as Salem Radio Network, which syndicates Oliver North, or Major Broadcasting Co., which does Michael Reagan—remain relatively small.

Perhaps the smallest talk syndicator is Cullum Communications Inc. Its principal owner is also its star: Blanquita Cullum. A former Bush Administration aide and Texas TV personality, Cullum started a local show in Richmond, Va., and lured such big-name guests as Phil Gramm, Bob Dole, and Robert E. Rubin. Then she decided to syndicate. Backed by a wealthy Virginia car dealer and Holly Coors, of the beer family, Cullum bought satellite time and has launched on 35 stations. The cost runs about $200,000 a year, and she isn't close to making money. "It's been a lot of work," says Cullum, a single mother of two. "I think Mother Teresa has a better social life than me."



MONEY TALKS EFM's McLaughlin nurtured Limbaugh—and helped wean talk-radio stations from their dependence on local programming

PHOTOGRAPH BY CLAUDIO EDINGER/GAMMA-LIAISON

RICH AND POOR. One factor creating demand for smaller shows such as Cullum's is a recent change in Federal Communications Commission ownership rules. Since 1992, owners have been allowed two AM and two FM stations per market. In total, they can own 20 of each. This has created a situation in most cities where the richest stations own some of the poorest. Because talk is hot, they will reprogram the lesser station to that format and sell ads on both stations as a package. The second station doesn't make much money, but it is an incremental benefit.

That's the case in San Francisco, where the Capital Cities/ABC Inc. outlet KGO is financing weaker sister KSFO. Jack Swanson, the program director for both stations, has been using a 50-50 mix of local talent and syndicated hosts such as Liddy and Reagan to create an ultraconservative Hot Talk format at KSFO. In liberal San Francisco, it's plenty controversial, but it has boosted ratings from 0.7 to 1.4 since January.

The trade-off is that hot talk is sometimes too hot for advertisers. For all of the Breathe Right Nasal Strip stories, most blue-chip marketers are reluctant to be associated with Limbaugh or any of the more acerbic hosts. Media buyers say national advertisers such as IBM and Philip Morris Cos.' Maxwell House will advertise but only gingerly—either by going into the show sporadically or by purchasing time around the show, hoping to catch the overflow audience. Limbaugh, most agree, is largely responsible for the rocket-like growth of Snapple Beverage Corp., an early, dauntless sponsor of his show. "Rush made Snapple what it is. He gave it instant brand recognition," says Sam Michaelson, a radio buyer for Zenith Media. "But a controversial talk show host will make most advertisers very skittish."

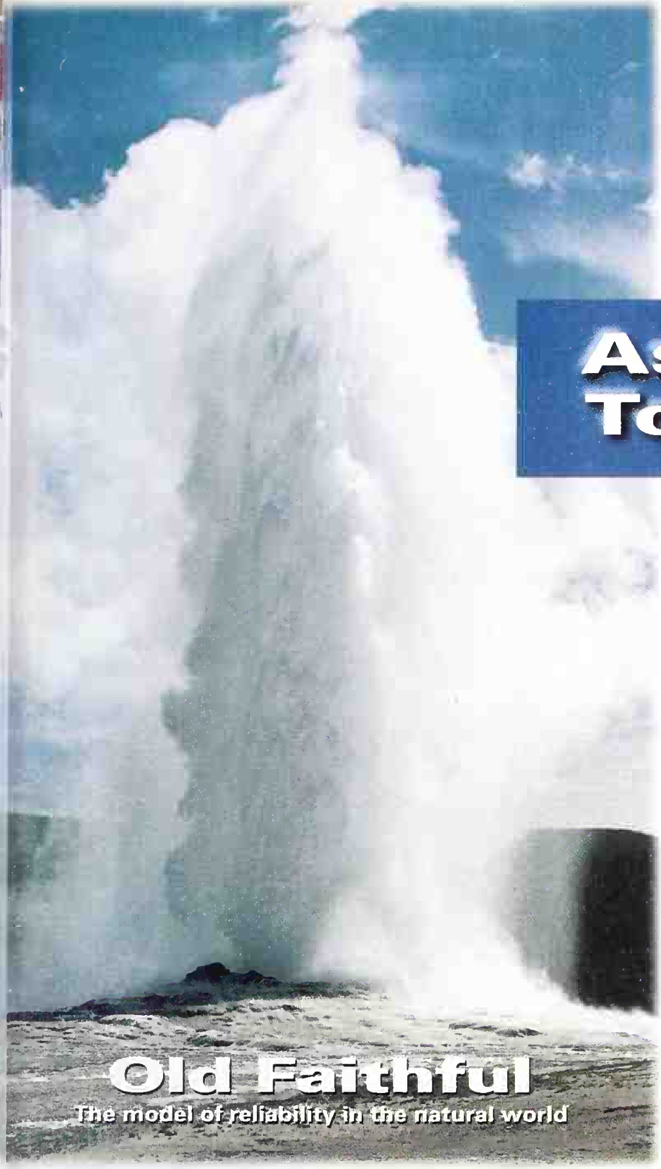
They don't have to look far for reasons to be nervous. After Howard Stern
offended most of the Hispa
community with his dispara
ing remarks about the mu
dered singer Selena, an ad f
Quaker Oats Co.'s Gatora
was inadvertently slipped in
his show for one day on KEG
FM in Dallas. Gatorade land
on a boycott list and had i
products pulled from son
shelves. The anti-Stern forc
recognized their error in sho
order, but much of the dar
age was done. Says a Quak
spokesman: "This reinforc
the idea that [advertising
talk radio] can have a dow
side."

Oh, but the upside. That
all the industry can focus o
Take the situation in Fresn
Calif. Limbaugh hasn't show
his face at Fresno's annual Di
tohead Barbecue & Political
Incorrect Picnic since 199
But that didn't stop 9,500 fa
from flocking to the event
Apr. 15. Never mind the to
rential rain or the $4 tick
price charged by sponsor K
Talk Radio. What self-respec
ing Rush devotee could pa
up the Al Gore Tree Huggi
Contest or the Miss Ditt
head Beauty Pageant?

KMJ Station Manager
Smith certainly wouldn't mi
it. Nobody in Fresno has
bigger case of Rush raptur
Since KMJ signed Limbaug
in 1990, its ratings in the 9 a.m.-noo
time slot have shot from 10% to 22
helping boost annual revenues. Whil
Smith won't discuss profits, the 12-poi
ratings rise has likely produced a win
fall. "Rush has had a huge, huge in
pact on our bottom line, and he know
it," says Smith. "That's why he keep
raising his rates."

In radio, such stories are the stu
dreams are made of. And as long a
America keeps demanding talk, syndic
tors, station owners, and, reluctant
advertisers will keep delivering. Mo
new players won't be getting rich, bu
that doesn't seem to deter them. "It
the greater fool theory," says ABC's Kar
tor. "There's always somebody willin
to try to turn around a radio station.
Rush Limbaugh is proof it can happe
But guys like Rush only come aroun
once in a blue moon.

By Michael Oneal, with Linda H
melstein, in New York, Judy Temes i
Boston, Eric Schine in Los Angele
and bureau reports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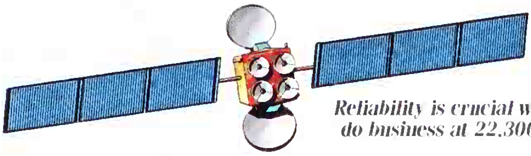

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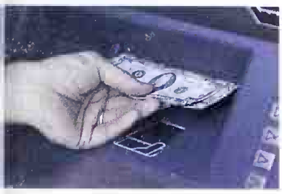

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SECURITIES FIRMS

LEHMAN BROTHERS: FREE AT LAST

Independent again, the firm is out to restore its once-hallowed name and business

When Richard S. Fuld Jr. made his first major trip to Israel in April, he was inspired by the spirit of the people. Despite the hardships, there was a feeling of teamwork, recalls the chief executive of Lehman Brothers Inc. "It was a wonderful sense of, 'We are all in it together.' That's the guts of our culture."

Just one year after Lehman Brothers was spun off by American Express Co., Fuld is mobilizing a lot of teamwork. His goal is to rebuild Lehman so that it will succeed as an independent firm. He has cut $182 million in costs so far this year, and axed 1,000 employees since early 1994. Fuld wins high marks from outsiders as a strong manager. Lehman shares have risen from 14 at the start of the year to its current 20 (table). Fuld and his top lieutenants have been buying Lehman stock over the past few months, a vote of confidence in the firm's future.

Despite the progress, it is still far from clear whether Fuld will be able to pull it off. Lehman is still working to overcome its past, particularly its 10 years as a part of American Express and Shearson, AmEx's brokerage unit. Until a year ago, Lehman had been suffering from a series of reconfigurations and management changes, and lacked a focused strategy. Lehman does have a commanding position in the bond business, mainly trading bonds for customers. But it is still trying to develop the set of well-rounded, high-margin capabilities that are required for success in investment banking. One glaring example: While competitors aggressively expanded globally during Wall Street's fat years in the early 1990s, Lehman concentrated on domestic markets and still lacks a major presence overseas.

HIGH STAKES. Lehman has another liability: its in-between size. Without a major presence not only in foreign markets but in some domestic markets, the firm lacks the resources and overall heft of a Merrill Lynch, Morgan Stanley, or Goldman Sachs. Yet it is saddled with costs that make it far bigger than such niche players as Donaldson, Lufkin Jenrette, which thrive by targeting few smaller businesses. "Without a lea ing position abroad or the deep pocke of some of their competitors, it remai to be seen what their comparative adva tage will be," says Samuel L. Hayes I a professor of investment banking Harvard business school.

Fuld says Lehman's size isn't a pro lem since it's "not trying to be all thin to all people. We want to be the premi investment bank serving our clients g bally. For the clients we're targetir we want to be their top 1 or 2 banke

ROOM IN THE MIDDLE

"For the clients we're targeting, we want to be their top 1 or 2 banker"

— RICHARD S. FULD JR., Lehman Brothers Holdings Inc.

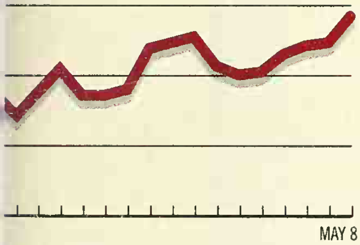
PHOTOGRAPH BY ANDREA BUCCI

he stakes are high. If Lehman can't
·come these drawbacks, it could be
;ht up in the wave of financial consol-
ion and ironically end up right back
re it was a year ago: as a division of
:ger financial institution.

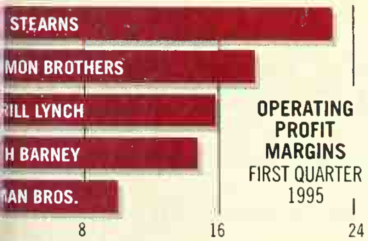
'he old Lehman Brothers of the
)s was one of the proudest, most
erful firms on Wall Street. Its decline
an in 1984, when Lehman was ripped
rt by a bitter feud between its in-
ment bankers and traders. The trad-
won, but Lehman was so weakened
; it sold itself to American Express.
part of AmEx, Lehman underwent a
ying number of name changes and
iagement crises. Shearson and Leh-
ı first tried to combine as one unit,
ed Shearson Lehman Brothers Inc.,
:r Shearson Lehman Hutton Inc.
ound 1990, Lehman and Shearson
'e split apart, reviving the Lehman
thers name.

'rom 1990 to 1993, Fuld and J. Tomil-
Hill, a high-profile mergers-and-acqui-
ons banker, shared the CEO's job of
Lehman Brothers division. But in
3, AmEx sold Shearson to Travelers
. This left Lehman abruptly shorn of
prosperous asset-management divi-
ı and its 9,000 Shearson retail bro-
s, which were a valuable distribution
system for Lehman's underwriting deals. AmEx then axed Hill and left Lehman without a CEO for months before Fuld was promoted to CEO. Finally, in May, 1994, AmEx pumped $1.1 billion into Lehman and spun it off.

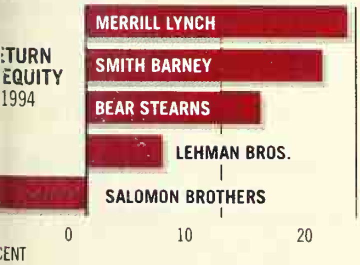
nan's Stock Price is Up...



: Margins Remain Low...



nd Returns are Anemic



:MBERG FINANCIAL MARKETS, MOODY'S INVESTORS SERVICE

LEHMAN'S BIGGEST CHALLENGES

INCREASE PROFITABILITY
Lehman must build up high-margin businesses such as derivatives, high-yield bonds, and emerging-market securities.

REBUILD EQUITY RESEARCH
The ranking of Lehman's once-preeminent research unit has fallen from first place to ninth.

GLOBALIZE Lehman lacks a major presence in most foreign markets.

DATA: BUSINESS WEEK

There's little doubt that Lehman now has a strong management team. Fuld, 49, and President T. Christopher Pettit, 50, both Lehman veterans, have been busy reshaping the firm. Fuld, a talented bond trader who earned his MBA from New York University at night, has quickly grown into the job of chief executive. A direct, no-nonsense leader, Fuld acts as Mr. Outside. Pettit, a West Point grad, is Mr. Inside, who runs the firm day to day. Both are strongly committed to Lehman: They receive 66% of their pay in stock. And they have remained in modest offices rather than newer, more sumptuous digs that are removed from the troops. "I like the people at the top. They are high quality," says Jack J. Byrne, a Lehman advisory director and shareholder.

Lehman has avoided the compensation disputes that have plagued other firms such as Salomon Brothers Inc. One reason is that only 6% of Lehman's revenues come from proprietary trading, according to Pettit. Paying a handful of proprietary traders a chunk of their huge profits is a recipe for infighting. To keep employees focused on teamwork and help Lehman win all of a customer's business, the firm has a "one firm, one profit and loss" approach. It has a single bonus pool and shuns special pay deals with star performers. "We just can't have people paid that way here," says Pettit. "The culture has to be a team."

But Lehman is still grappling with its basic strategy. It has an enviable franchise as the No. 2 underwriter of all debt issued by U. S. companies in 1994, according to Securities Data Co. It is ranked No. 2 in mortgage-backed securities. But these are lower-margin, commodity businesses that need to be supplemented by higher-margin areas, such as derivatives and foreign exchange. "They are late starters in so many of these high-margin areas, it puts them at a disadvantage," says Haig J. Nargesian, a senior analyst at Moody's Investors Service Inc., which just downgraded Lehman. Fuld disagrees. "Derivatives, foreign exchange, and high yield are a huge percentage of our business," he says, adding that 20% of 1994 revenues came from derivatives alone.

NEW SPIRIT. Lehman also has to revive its equity business, where it is No. 5 in global equity, according to SDC. One key to getting equity assignments is good equity research. But Lehman's equity department is in shambles. In 1994, Lehman's ranking in *Institutional Investor*'s poll plummeted to No. 9, after being No. 1 three years in a row in the early 1990s. One reason: Lehman's cost cuts, which reduced the number of analysts from 71 in 1993 to 58 today. Currently, Lehman has no analyst covering major pharmaceutical companies or the media. "I keep hearing we lost the business because we couldn't offer the research coverage," says one managing director.

Part of the problem in these units is the general feeling that they are unimportant because of the firm's strong bias toward bonds, say several Lehman managing directors. The firm is tightly run by two guys, Fuld and Pettit, who spent their careers in the bond business and who have promoted their loyal fixed-income inner circle to head equity and other departments. "Equity is a stepchild. Fixed-income rules the roost," says another Lehman managing director. Fuld says the firm has "a lot of work to do" in equities—and it is not biased. "We're looking for good, talented people," Fuld insists. "Backgrounds don't matter."

It's clear that a new Lehman is slowly taking shape. Many departments are hiring senior people, who are renovating from the ground up. For example, last July, Fuld hired a Morgan Stanley & Co. veteran, Robert Lunn, to rebuild Lehman's cadre of 350 brokers who cater to the very affluent. Lunn dismissed 100 top brokers last year and hired 30 top-notch brokers from CS First Boston and Salomon Brothers in recent months. The restaffing has resulted in a rise in average annual commissions per broker from $500,000 to $1 million. Similar efforts are under way in equities, merchant banking, high yield, and in Asia.

But perhaps the best achievement is the new spirit that pervades the firm, engendered by release from what most Lehmanites considered indentured servitude at AmEx. Lehman officials say privately they are strongly opposed to a sale. Yet Lehman will have to move fast to avoid a return to what it has tried hard for so long to escape.

By Leah Nathans Spiro in New York

CHARTS BY LISA KNOUSE BRAIMAN/BW

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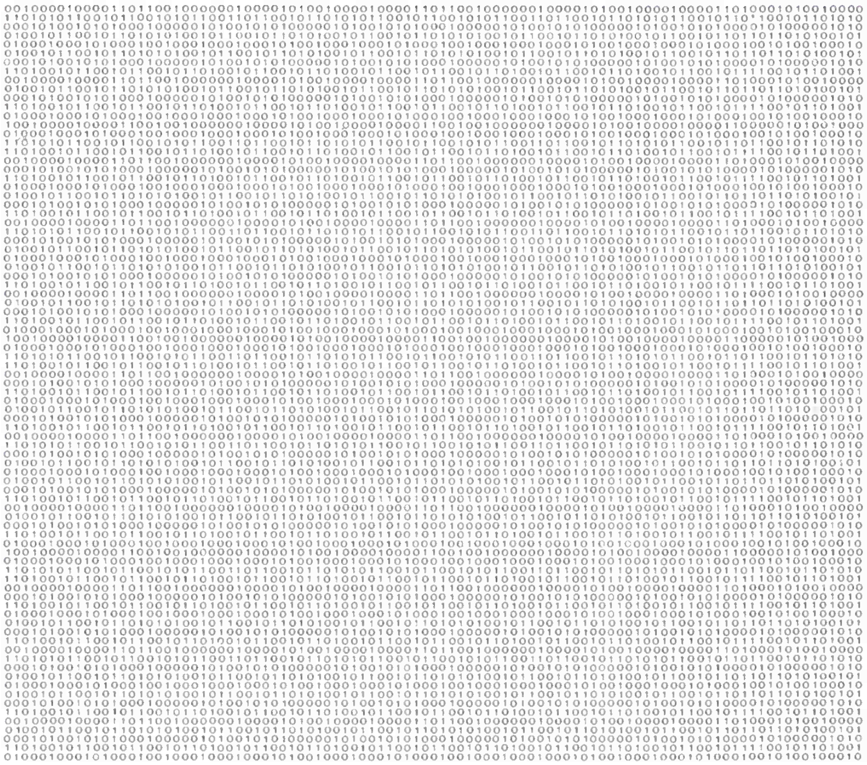

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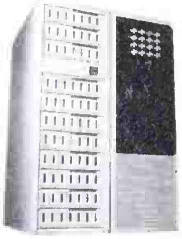

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UNISYS

COMMENTARY

By Geoffrey Smith

YOU SHOULD KNOW WHAT YOUR FUND MANAGER IS MAKING

Investors pour millions of dollars a day into mutual funds, but they do so without one piece of critical information: How are fund managers paid? For decades, the Securities & Exchange Commission has required public companies to reveal CEO pay—but that doesn't extend to mutual funds. Now that the funds hold more than $2 trillion of the public's money, new questions are being raised about why fund companies should be exempt from disclosing how much they pay portfolio managers.

Regulators have long been concerned about rising fees levied on fund investors. But they have never focused on the small part of fees that goes toward compensating portfolio managers. Some fund experts and compensation specialists say that bonus incentives have become such an important tool to attract and motivate fund managers that compensation should be disclosed as a way for investors to evaluate fund managers—much as shareholders in public companies are told what the CEO makes. "Considering how much money is in mutual funds today, it's surprising no one knows how managers are paid," says Alan Johnson, president of compensation consultant Johnson Associates in New York.

EXTRA RISK? For sure, pay for performance is an excellent way to motivate managers. But some incentive programs may come into conflict with an investor's interests. For example, there are funds that place a heavy emphasis on short-term results—with up to 80% of a manager's annual pay coming from one-year performance. A high-risk investor might go with such a fund, but it makes little sense for an investor with a long-term horizon.

At Fidelity Investments, most managers receive bonuses based on the rolling three-year performance of their fund, which encourages long-term results. But sources say at least six of Fidelity's top managers, including Jeffrey N. Vinik, who runs the $40 billion Magellan Fund, have bonus arrangements potentially worth millions if they meet certain performance goals and if the firm's profits are strong. Fidelity won't comment on the compensation of individual managers, but investors might ask: Which managers have the best deals, and might those bonus arrangements be structured in such a way that it could lead the manager to take extra risk as the plan comes up for renewal?

Bonus plans at other firms sometimes include equity in the firm—a favorable sign, say fund watchers, since the manager is likely to have a long-term outlook. Firms that don't have ownership arrangements "tend to pay up for portfolio talent and put on an enormous amount of pressure for a big hit," says James Berns, a recruiter for Korn/Ferry International. Other bonus plans encourage managers to market their funds by focusing on asset growth, which might prompt a manager to spend time on promotion that should be spent on investment.

Manager pay is such a closely guarded secret that most fund directors are not informed of how managers are paid, fund lawyers say. Directors oversee contracts that determine shareholder fees, but they rarely review specific compensation packages. Says Johnson: "If directors of mutual funds don't pay attention to how much people are paid, they're missing the point. They should know what the reward structure is and what kind of chances [managers] might take."

TOUGH FIGHT. The SEC has been gradually requiring more disclosure from the traditionally secretive fund industry. In recent years, it has required funds to actually name the individuals who manage funds and also to disclose directors' pay But portfolio-manager compensation has not yet appeared on the agency's radar screen, says an SEC source.

Jon Fossel, CEO of Oppenheimer Management Corp. and chairman of the Investment Company Institute, the fund industry's main trade organization, admits that "it's hard to argue that investors shouldn't be able to know how managers are paid," particularly when a bonus plan includes significant short-term incentives. But he suggests that fund companies would fight any new disclosure rules on compensation. What really matters, he says, are fees and performance. A manager's pay, he argues, is a "highly sensitive" and competitive piece of information.

There was a time when public companies made much the same argument. But just as the regulators did before, they may again have to consider whether to put investors' concerns ahead of the managers'.

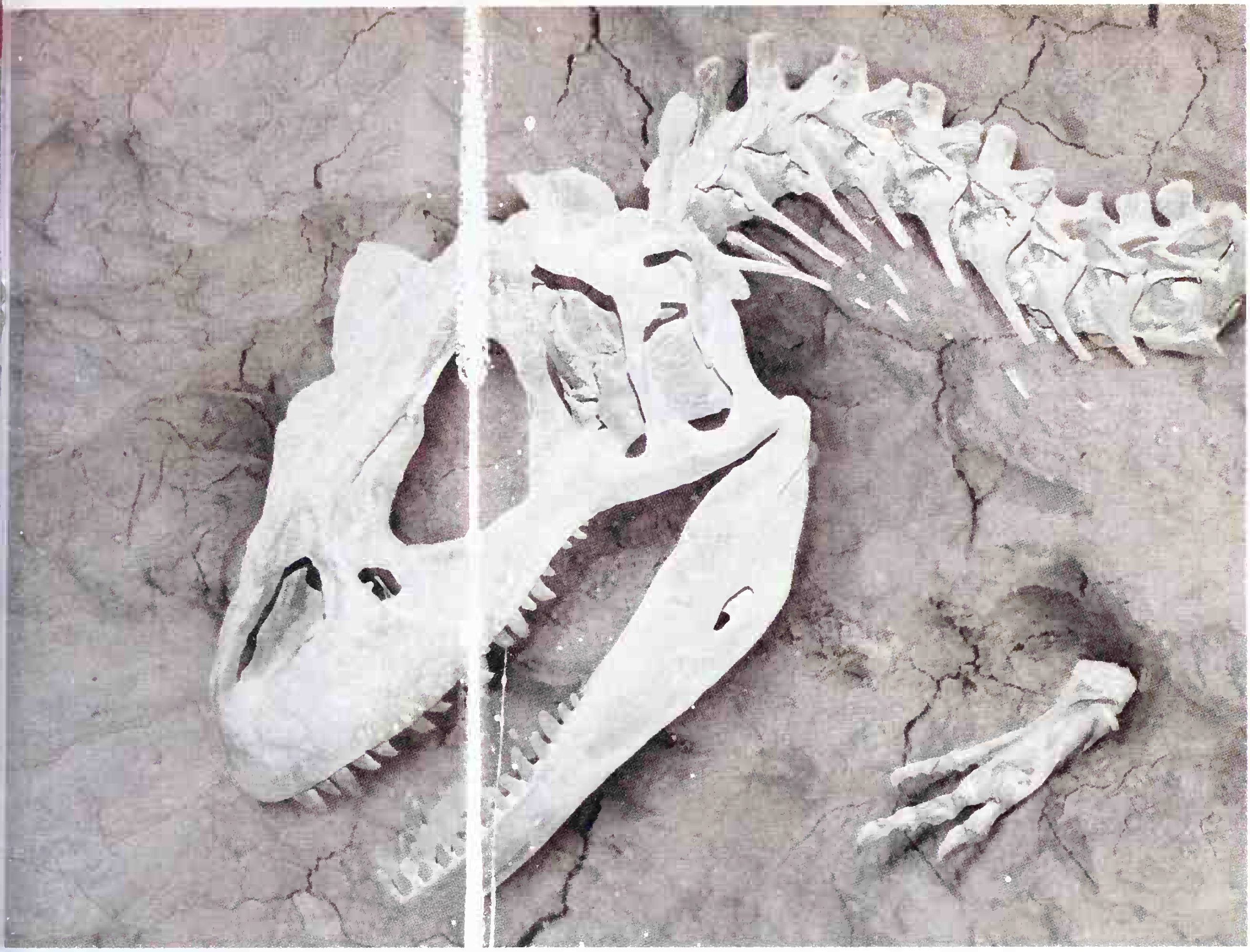
Boston correspondent Smith covers mutual funds

Bonus Fever

Mutual-fund companies use many methods to calculate bonuses:

SHORT-TERM RESULTS	Compensation may be based on one-year performance against a benchmark index such as the S&P 500.
LONG-TERM RESULTS	Similar to short-term, but uses rolling three- or five-year returns and compares them with a benchmark.
PERFORMANCE FEES	Large portion of managers' bonus comes from the performance-based fees collected from fund assets.
MARKETING	Bonus may reflect the fund's asset growth. This may induce managers to publicly promote their funds.
COMPANY PROFITS	Bonus is based on profits of the management company or those of a group of funds.
DISCRETIONARY	Management company uses subjective criteria to evaluate manager's contribution to firm.

DATA: BUSINESS WEEK



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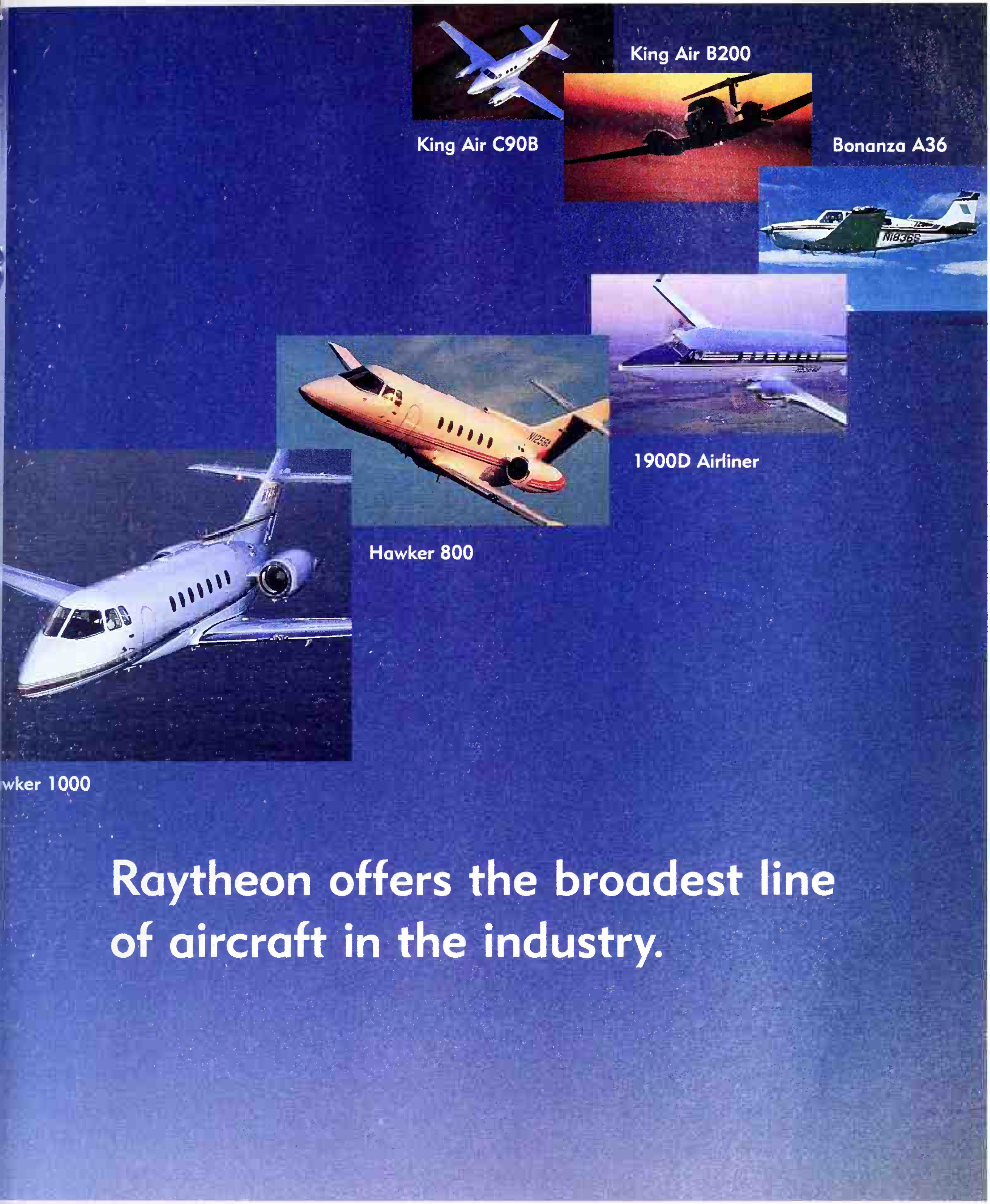

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BORIS JORDAN: THE MAN WHO MADE MOSCOW'S MARKET

For an encore, he aims to create his own Russian bank

When Victor Paul first met Boris Jordan in Moscow in 1992, both were novice investment bankers helping the Russian government sell off thousands of state enterprises. One day, recalls Paul, who currently heads Morgan Grenfell & Co.'s Moscow operations, "Boris asked me why I wasn't trading equities. I told him the market wasn't developed enough yet. You know what Boris said? He said he wanted to create the market, not wait for it to develop."

That's just what happened. In his three years with CS First Boston in Moscow, the tall, cherub-faced Jordan, now only 28, practically built the Russian equity market from scratch. While other big foreign investment banks shied away, he created securities from the assets of Russian companies and marketed them to foreign buyers. Last year, CSFB attracted $1.2 billion of the $1.8 billion of foreign investment in Russian equities.

Now, Jordan once again is moving ahead of the curve. On May 4, he announced he was leaving CS First Boston to create a new investment banking and securities firm, together with a Russian partner. With foreign investors avoiding emerging markets like Russia in the wake of the turmoil in Mexico, Jordan is going after a big new customer base: the Russian investor. Says Jordan: "Russians are using the international 'quiet period' to grab hold of assets."

LEGEND. Jordan hopes to take advantage of this shift by setting up an indigenous operation. Russian investors prefer doing business with other Russians. Jordan also believes domestic rather than foreign banks will dominate Russia's capital markets.

His background gives him a huge advantage. The grandson of Russian aristocrats who fled the Bolsheviks, Jordan was raised in Sea Cliff, N.Y., a close-knit ethnic community where he studied Russian on Saturdays and worshipped at an onion-domed Russian Orthodox church. As a New York University undergraduate in the 1980s, he majored in U.S.-Russian studies.

JORDAN: *On his own*

GRAHAM TROTT/KATZ/SABA

Right after college, he joined Kidder, Peabody & Co. and learned how to securitize assets. Later, he joined GPA Group PLC, a financial group involved with aircraft leasing. Along the way, he picked up a grounding in emerging markets and valuable contacts among institutional investors. In 1992, Hans-Jorg Rudloff, who started up CSFB's East European and Russian businesses, recruited him for Moscow.

There, he became something of a legend. When he launched CSFB's trading business in mid-1993, he had never traded a stock or bond. But by 1994, when the Russian market took off, CSFB was handling more than 60% of the deals. Rival brokers say Jordan's inexperience was a blessing in disguise, allowing him to push large-scale Western investment at a time when others remained wary. "You ca argue with the results," says Berna Sucher, managing director of Mosc brokerage Troika Dialog. "CSFB has h an extraordinary impact on the Russi market."

Jordan's departure is a big blow f CSFB. Last year, Russian investme banking and trading produced almo $100 million in revenues, nearly half CSFB's profits. Leaving to work wi Jordan are Stephen Jennings, an expe enced investment banker who was c head of CSFB's Moscow office, and Ant Kudrashov, the firm's top Russian tra er. Other bankers in CSFB's 90-pers Moscow office may join the exodu There is also talk that Rudloff, who le CS First Boston in 1994 to sta his own investment boutique in Lo don, could join Jordan and his Russi partner.

NATIVE STRENGTHS. Jordan expects fo eign investors to remain leery of Russ until after parliamentary and Preside tial elections in late 1995 and early 199 But he believes that Russians, who ha traditionally held their $12 billion wor of savings in dollars, will get more inte ested in stocks now that inflation dropping, the ruble has stabilized, a the dollar has weakened. When foreig ers do return to Russia, he plans to e ploit that market.

Jordan is mum abo his partner's identit but Moscow broke expect him to join for es with one of Russi top commercial bank High on the list is U eximbank, the lead of a banking conso tium that has propos lending the governme $2 billion in exchang for control over number of Russia's t privatized companies.

Jordan says th Russian banks are sin ply following the exan ple of J.P. Morga which made a fortur at the turn of the ce tury snapping up an restructuring America industrial assets. Th banks are likely t shape the next phase in the Russia markets' maturity as local investors g in on the action. If past is prologue, Jo dan won't wait for the trend to develo His home-grown bank will make happen.

By Patricia Kranz in Mosco

A Whiz Kid's Résumé

AGE: 28

BACKGROUND: Ethnic Russian community in Sea Cliff, N.Y.

EDUCATION: New York University, B.A. in Russian-U.S. Studies

EARLY JOBS: Project finance at Kidder Peabody, emerging market asset securitization at GPA Group

POSITION AT CSFB: Managing director in charge of Moscow office

LIFE AFTER CSFB: Starting his own investment firm

DREAM: Expanding Russia's new capital markets

DATA: BUSINESS WEEK

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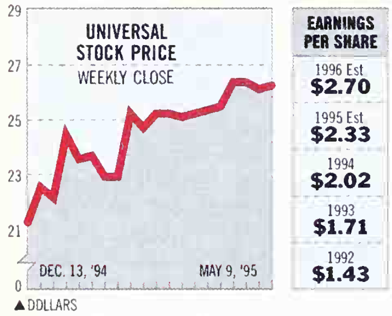
BY GENE G. MARCIAL

UNIVERSAL HEALTH: A SPREADING GLOW

Anybody who thinks the hospital business is in poor health should talk to Alan Miller, the upbeat CEO of Universal Health Services (UHS). Business has been so good that Universal has acquired five hospitals in the past six months. No wonder big investors have stayed with the hospital-management company. UHS shares have more than doubled since mid-1993, climbing from 12 to 26 on May 9. Fidelity Management is the largest stakeholder with 11%. Another influential holder: global investor George Soros, with 4%.

IT'S IN THE PINK



DATA: BLOOMBERG FINANCIAL MARKETS, FIRST CALL CORP.

What's behind Universal's appeal? "It's just plain cheap for what's going on in its business," says one investor. Adds Todd Richter, an analyst at Dean Witter Discover: "Compared with the other hospital-management companies we follow, UHS remains inexpensive." Richter is impressed with its solid balance sheet, strong cash flow, and book value of $20 a share. Based on Richter's 1995 earnings estimate of $2.35 a share, the stock is trading at a price-earnings ratio of 11. The hospital group's p-e ranges from 10 to 23.

One New York mutual-fund manager believes UHS has received feelers on a buyout or merger offer from several big players. The approaches have been friendly so far, says this pro, because the company has four different types of stock, designed to thwart an unfriendly takeover. Some 40% of the voting stock is controlled by Miller, who bought more shares this year.

"The fact that the CEO holds a lot of the stock wouldn't deter a takeover—if the price is right," says the fund manager. Miller will only concede that he has "been approached" more than once. Some analysts say the stock would be worth 35 to 40 in a buyout or merger.

Miller says Universal may spin off part of its assets to shareholders. Universal owns and operates acute-care and psychiatric hospitals and ambulatory surgery and radiation centers. It also owns a managed-care organization. Psychiatric admissions, which have lagged behind in past quarters, "have improved, posting a better-than-expected 11.9% same-facility increase in the first quarter," says Richter.

MOVING PAST AN ASBESTOS CLOUD

Long shunned by investors because of asbestos-related lawsuits, Fibreboard (FBD) is now catching the fancy of some smart-money pros. Why? Apart from very possibly beating the asbestos heat, Fibreboard is emerging as an attractive asset-value play. The stock reflects the switch in Fibreboard's profile: Trading at 26 in early December, the stock has hit 36. Stuart Rudick of Rudick Asset Management, puts Fibreboard's breakup value at 70 a share.

Fibreboard has "rapidly evolved into a financially thriving building-products concern, from an asbestos-impaired forest-products company," says John Stanley of Dillon Read. The company's asset gem is 80,000 acres of timberland in the Sierra Nevadas. The acreage is valued on the books at $35 million, but its current market value is about $240 million, or $28 a share, based on recent timberland sales, says Stanley. Apart from producing lumber and insulation products, Fibreboard develops and operates ski resorts in Northern California. Last August, it acquired Norandex, a low-cost producer of vinyl siding.

A federal court is expected to approve an agreement reached by Fibreboard with primary insurers to cover liabilities from asbestos lawsuits. Stanley and Rudick believe the ruling will be favorable and dissipate concern about the liabilities from Fibreboard's asbestos-linked products before 1959, when most of the exposure occurred. The agreement would have insurers pay all pending claims and provide a $1.5 billion trust fund for future claims.

Stanley figures revenues will jump to $524 million this year from $363 million last year. He sees net rising to $4.10 a share from $3.51 last year.

CURIOUS MATH AT DURACRAFT?

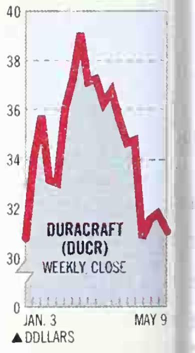
When Duracraft (DUCR) announc better-than-expected first-quart earnings on Apr. 26, the stock of t major maker of home heaters and h midifiers should have shot up. Instead slipped. Trading on Apr. 26 at 31¾, D racraft is now at 30. Blame it on t "poor quality" of the reported earnin says a New York money manager.

Despite the nice rise in earnings 48¢ a share from 44¢—the "balan sheet says something quite differen notes Charles Biderman, editor and pu lisher of *Market Trim Tabs* in San Rosa, Calif. There are real questio he says, as to how those numbers we derived. First, the inventories: Th leaped 132%, to $41.3 million from $1 million. "We have no evidence of wro doing; but inventories soaring wh gross margins seem unrealistically makes us wonder..." says Biderma Inventories could hide costs that ot erwise reduce income, says one analy

Also suspicious: The drop in reserv for questionable accounts receivabl by $1.6 milllion, which enabled the co pany to reduce expenses. "Had reserv stayed flat, earnings would have plung 28¢ instead of rising to 48¢," figures B derman. Part of Duracraft's proble he explains, is the jump in raw-material prices in China and Hong Kong, where most of the products are manufactured.

What happens next? Biderman says that because Duracraft's prices have not increased as fast as the raw-material prices, subsequent quarter profits "will have to be squeezed even more than they were in the first perio

CRUNCHING NUMBERS



DATA: BLOOMBERG FINANCIAL MARKET

Duracraft CFO Keith Seidman insis the earnings reported "accurately r flected" the first-quarter results. T inventory jump was due, he adds, product returns caused by the mild wi ter. He concedes that the rise in ra material prices "will impact" 1995 r sults. Seidman sees gross margins risi back to 31% in 1995.

ERIC HOFFMANN/BW

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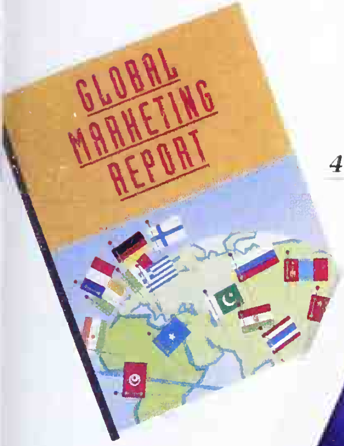
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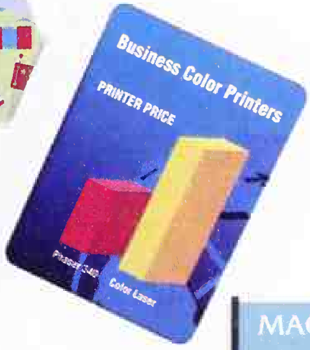
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CONGRESS

NO FREE RIDE FOR FREE TRADE

Big Business meets a GOP resistant to its global agenda

They love tax cuts. They hate regulation. And they never met a government agency they couldn't pare. In many ways, the 73 freshmen House Republicans look like a dream to Corporate America—a dream that quickly fades into a nightmare when the subject turns to trade.

Just ask Federal Reserve Chairman Alan Greenspan and Treasury Secretary Robert E. Rubin, who found out the hard way when they went to Capitol Hill last winter to brief lawmakers on the Clinton Administration's peso rescue plan. The duo expected kudos from probusiness Republicans, thankful that the Administration had taken a bold step to prop up Mexico's economy and stabilize world markets. What they got was a bitter thrashing from the freshmen—despite the plan's strong support from GOP leaders. Ten of the newcomers even signed a blistering letter to House Speaker Newt Gingrich (R-Ga.) denouncing the peso plan as "a handout to the international finance community."

Attacks on the business elite chasing the almighty buck used to be the province of populists on the left. But the surprising stridency of the GOP freshmen has alarmed many executives, who are increasingly dependent on foreign markets for growth. Though the GOP has historically been the party of free trade, the vast majority of first-term Republicans reject that mantra, aligning themselves more closely with America Firsters such as Patrick J. Buchanan and economic nationalist Ross Perot. Explains freshman class vice-president Mark Souder (R-Ind.): "We're hot-wired to the grass roots, so that's why you're seeing a more pro-nationalistic tone."

The frosh class constitutes one-third of a majority vote on any issue in the House—a cohesive swing bloc that has voted together more than 98% of the time on the GOP's Contract With America. Unchecked, such sentiments could leave 40 years of trade liberalization dead in the water and even reverse some gains. "I'm very concerned," confesses Dick DeVos, president of Amway Corp., a $5.3 billion direct marketer that gets 70% of its sales overseas. "Among some of those [newcomers], there is an increasingly persistent tendency to reject free trade."

SWING BLOC Stockman and his frosh House colleagues buck the leadership's line. "No one, not even business, is leaving the room without getting hit."

DeVos has good reason to worry. No longer can business count on a monolith of Republican free-traders to offset the Democrats' traditional resistance to expanded trade. On that one issue, the new Republicans are closer ideologi to the Democrats' labor-liberal wing by House Minority Leader Richard Gephardt (D-Mo.). "We are at a cr roads here," worries Representative Kolbe (R-Ariz.), a veteran free-tra "My freshman colleagues know w they were elected for, and free tr isn't part of their agenda."

Why this shift? Many of the freshmen ran on anti-Establishm platforms, promising to shake up status quo. Moreover, s freshman Representative Brownback (R-Kan.), a fore U.S. trade negotiator, m of his colleagues' beliefs based on a distrust of la institutions, whether they international organizati government bureaucracies bor unions, or multinati corporations. "They're fea of bigness—whether th one-world government or Big Busine explains Brownback.

The newcomers are aggressive their new clout, too. Their ultimate jective is to seize the policymaking on trade issues from the execut branch. Already, their agitating prompted congressional efforts ai at undercutting President Clinton's M ico policy. And opposition from House freshmen has jeopardized "f track" legislation favored by Repu can leaders to renew Presidential thority to negotiate trade agreeme

TRADE TARGETS

GOP freshmen are flaunting Republican leaders on global commerce

MEXICAN CURRENCY CRISIS Agitation by first-termers, angry over what they call a bailout of big investors, prompted congressional efforts to scuttle the Clinton Administration's peso rescue plan.

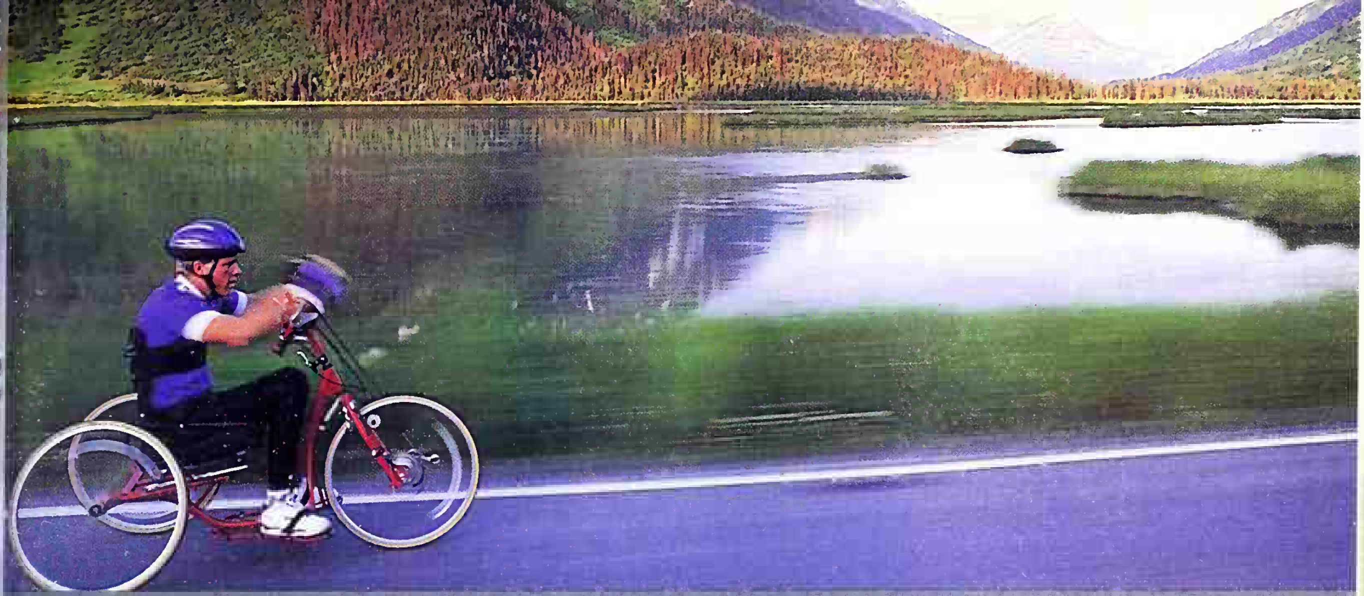
FAST-TRACK AUTHORITY Eager to assert congressional power on trade, Republican newcomers could thwart efforts to extend White House power to negotiate trade accords without amendments.

EXPANSION OF NAFTA Freshman opposition is likely to delay Congress' consideration of Clinton Administration plans to expand the North American Free Trade Agreement to Chile and other Latin American nations.

TRADE SUBSIDIES Budget-cutting conserva tives would gut Commerce Dept. programs designed to subsidize U.S. trade promotion abroad. Many freshmen want to abolish the Commerce Dept. altogether.

DATA: BUSINESS WEEK

TO BOTTOM: PHOTOGRAPHS BY CHRIS SCHRAMECK, PETE SILVA/IMA IMAGE



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without congressional amendments.

It doesn't end there. The freshmen talk of stalling legislation extending the North American Free Trade Agreement (NAFTA) to Chile and other Latin American countries. The majority backs a hawkish Gephardt proposal to slap sanctions on Japan, China, and other countries that refuse to increase U.S. imports—a proposal tougher than President Clinton's current stance on auto parts—causing many free-traders to worry that it will spark a global trade war. They want to abolish the Commerce Dept. and its export programs, which many consider corporate welfare. "We're hitting everyone," promises Representative Steve Stockman (R-Tex.), a leading freshman trade hawk. "No one, not even business, is leaving the room without getting hit."

SPILLOVER EFFECT. Most members of the group feel they were elected to pursue the Contract's domestic agenda, particularly budget slashing and tax cuts. And the Contract doesn't contain a word about trade. That explains only part of the picture. In many cases, Republicans—among them Representatives Jon Christensen (R-Neb.), Todd Tiahrt (R-Kan.), and David Funderburk (R-N.C.)—replaced Democrats in districts that long favored protection for homegrown industries like textiles, autos, and agriculture. Other GOP freshmen, including Souder, Stockman, and Helen Chenoweth (R-Idaho), won in 1994 because of strong backing from fiercely nationalistic Perot voters.

The hostility the new group feels toward global trade is spilling over to other international issues as well. These neo-isolationists have gleefully backed drives to slash the foreign aid budget, ban U.S. participation in U.N. peacekeeping operations, and adopt a more hard-line stance toward Russia.

Corporate America is so concerned that it is working overtime to "educate" the firebrands on the merits of free trade. Industry groups such as the Electronic Industries Assn. have sponsored briefings on Capitol Hill, and companies such as General Electric Co. are considering one-on-one meetings with novice lawmakers. Even the conservative Heritage Foundation will begin a trade education program for first-term lawmakers in June.

The business reeducation plans could temporarily blunt some of the freshman class's sharper edges. But unless Corporate America can convince the newcomers that free trade doesn't jeopardize jobs in their districts, trade liberalization could be a tough sell for years to come.

By Richard S. Dunham, Douglas Harbrecht, and Mary Beth Regan in Washington

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Science & Technology

MEDICINE

X-RAYS UNDER FIRE

Did earlier overuse cause much of today's breast cancer

From the library in his striking home in San Francisco's Haight-Ashbury district, Dr. John W. Gofman picks up *Nuclear Milestones*, a book that speaks to the great irony of his life's work. In it, Gofman, professor emeritus of molecular and cell biology at the University of California at Berkeley, is pictured with former Atomic Energy Commission chief Glenn T. Seaborg. In Seaborg's lab, Gofman did pivotal research on plutonium in the 1940s, speeding A-bomb development.

Today, Gofman, 77, is better known as a controversial physician and scientist who has spent much of his career agitating about the dangers of radioac
fallout. Now he is dropping a bom
his own: Based on a review of 50 y
of medical literature beginning in
1920s, Gofman claims that up to
of all breast cancers seen today
have been caused by the ionizing ra
tion from medical X-rays.

VAST OVERSTATEMENT? If Gofma
right, the message is heartbreak
Some 182,000 American women wil
diagnosed with invasive breast cance
1995, predicts the American Cancer
ciety, and about 46,000 will die of it.
least some of those cases might h
been prevented. Gofman's argum
however, is that si
medicine has su
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limit patient expos
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Gofman's critics
he has vastly overs
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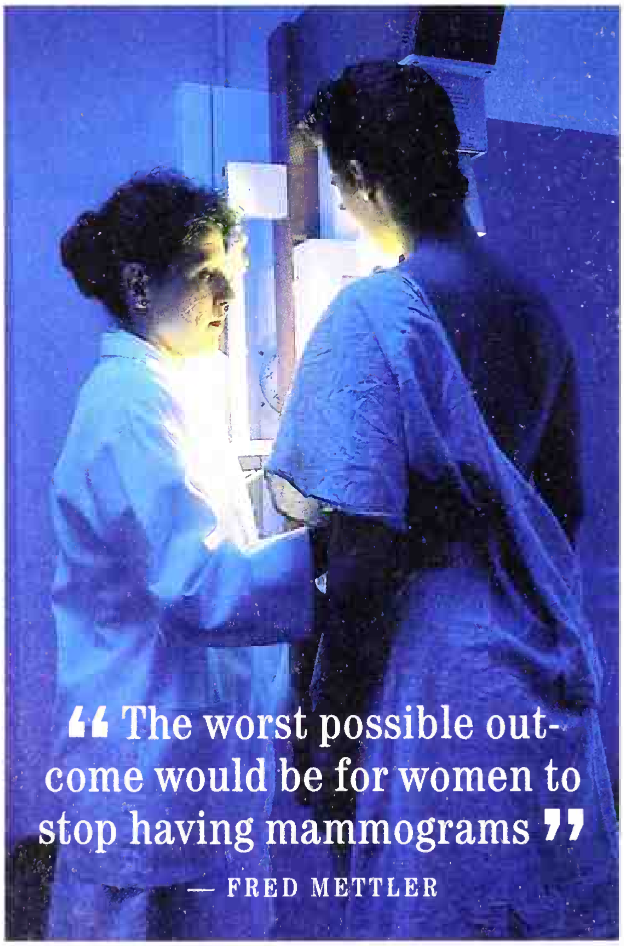

"The worst possible outcome would be for women to stop having mammograms"

— FRED METTLER

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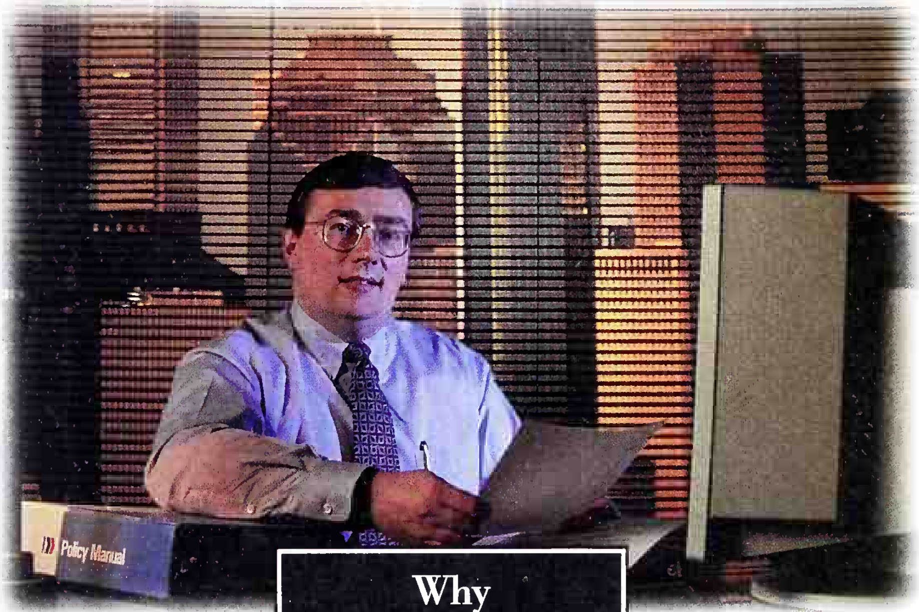

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Providing the means to deliver accurate and timely information to improve work processes and make better business decisions is the job of George Alameda, Chevron U.S.A. Production Company's Manager of Information Technology.

The company is using the SAS System to help with enterprise-wide information delivery. "Our mission is to make financial, operational, and reservoir data available in an easy-to-use format to all the asset teams at work in CUSA Production Co.," says Alameda. "We've found the SAS System is a superior solution for analyzing data, turning data into useful metrics, and guiding our cross-functional teams toward improved work processes."

One team, in CUSA Production's Western Business Unit, is tracking the profitability of individual wells. "It's a tremendously difficult task to optimize our field operations for maximum profitability," says Alameda. "With the SAS System, we can integrate large amounts of data and build a picture to compare one field against another and challenge our asset teams to identify and share best operating practices."

Reaching for the Best

Alameda looks forward to extending the use of the metrics and performance monitoring data to employees trying to improve their work processes. He admits his vision is far reaching, but so is the SAS System. "Our challenge is to be better than the best," he concludes, "and the SAS System is helping us reach that goal."

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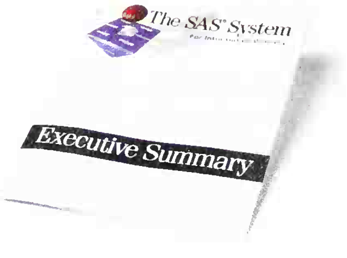

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RAD) common for diagnostic chest X-rays today.

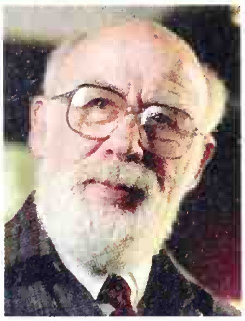
Because of the limits of historical analysis, medical record-keeping, and the complexity of cancer, it could take years to determine exactly what the impact of radiation has been. For now, the biggest concern among Gofman's critics is that his pronouncements could spread new fears about breast X-rays.

CONSTANT GLARE. Gofman says his findings have nothing to do with today's mammograms. He notes that typical exposure is now less than one-third of a RAD, or just one-hundredth as much radiation as in the 1960s. Most doctors believe that for middle-aged and older women in particular, the benefits vastly outweigh the risks. "The worst possible outcome of Gofman's study," says Dr. Fred A. Mettler, chairman of radiology at the University of New Mexico School of Medicine, "would be for women to stop having mammograms."

No one, however, disputes that ionizing radiation can be hazardous, and the breast seems to be especially vulnerable. Of 41,000 people who survived extreme exposure during the Hiroshima and Nagasaki atom bomb blasts, 295 developed breast cancer—about 50% more than normal for Japan. Higher-than-normal incidence is also found in women who have undergone X-ray fluoroscopy—once part of tuberculosis therapy. Instead of taking a split-second film, doctors observe the patient under a continuous X-ray glare. Doses have come down today. But Gofman still worries that doctors, especially overseas, are not taking enough care to minimize fluoroscopy exposure.

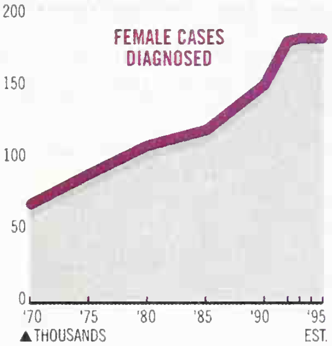
Critics complain that Gofman hasn't published his findings in a respected journal that is subject to peer review. Instead, he wrote a book: *Preventing Breast Cancer: The Story of a Major, Proven, Preventable Cause of This Disease*, just published by the San Francisco-based Committee for Nuclear Responsibility Inc.

Even before viewing the data, some experts cringe at the apparent hyperbole. "That 75% figure is ludicrous," says Mettler, who is also the U. S. delegate to the U. N. Scientific Committee on the Effects of Radiation. He points out that Hawaii has the highest incidence of breast cancer in the U.S., though X-rays were rare.



PAST IMPERFECT For decades, Gofman notes, X-rays were used for everything from shoe fittings to acne and wart removal

DID BREAST CANCER CASES SHOOT UP...



DATA: AMERICAN CANCER SOCIETY; JOHN GOFMAN, MD

...BECAUSE OF PAST ABUSES OF X-RAYS?

CONVENTIONAL WISDOM

- Medical X-rays, though overused prior to 1970, caused little harm
- Spread over a long lifetime, low-dose radiation is safe
- The causes of breast cancer are not known

GOFMAN'S BOMBSHELL

- Atom bomb studies show high-dose radiation can cause breast cancer
- Continuous "fluoroscopy" was particularly risky
- Breast cancer may be largely preventable

Other researchers believe dietary fat, hormone levels, and genetic disposition for cancer rates play a much bigger role than past X-ray exposures. Gofman's antiradiation bias, says Mortimer M. Elkind, a Colorado State University radiologist, means he "tends to see a skeleton behind every curtain."

Yet Gofman surely has found some frightening skeletons. The list of uses and abuses for "the ray," as scientists called it, is long and bizarre. Discovered 100 years ago, this invisible, short wavelength radiation was first used for imaging. Then doctors found that some patients they exposed actually improved, leading to treatments for pneumonia and bronchitis. X-rays were also used to treat post-partum mastitis, an inflammation of a nursing woman's breast. Doctors "didn't realize cancer was a disease that comes 10 or even 60 years after the radiation insult," says Gofman.

In the 1920s, beauty p
lor operators sometin
wielded X-ray machines
zap clients' unwanted fa
hair. In the 1930s and 19
"shoe fitters" arrived at
partment stores. Custom
shoved their feet into th
fluoroscopic contraptio
which showed the bones
the feet in motion. Until
1960s, dermatologists routi
ly used X-rays to zap 80 different s
maladies—from acne to warts.

By the 1950s, some scientists w
sounding the alarm. One of their fi
targets was the faddish use of fluoro
py during "well baby" visits, in wh
pediatricians would hold the butt
down while mothers watched th
healthy babies' organs in real ti
Some babies underwent the proced
once a month for two years, subject
them to at least half a dozen RADs o
this period. Gofman says that may
plain relatively low breast cancer ra
in poor, rural communities, where
rays were rarely used.

Gofman expects his hypercritical
leagues to take a fine-tooth comb to
data. Radiologists in particular
"afraid to admit the mistake anyb
could have made," he says wearily.
his book, he repeatedly points out t
doctors' use of X-rays was based on
best knowledge available at the tim

WREAKING HAVOC. Even so, the ste
reduction of RAD levels in recent ye
reflects general awareness of the d
gers. And continued vigilance is ess
tial, say Gofman's supporters. With
endorsing Gofman's numbers, Willi
E. Morton, professor of environmen
medicine at Oregon Health Scien
University School of Medicine says t
Gofman has "done a service by point
out the reality of the risk" of X-ray

Gofman may have overstated th
risks. But there is a lesson in his c
tions. With public attention increasin
focused on the role of genetics in can
and with the recent discovery of
BRCA-1 breast cancer gene, envir
mental factors are getting less attenti
However, "environmental and genetic i
pacts go hand in hand," says Mark Sk
nick, vice-president of research at My
ad Genetics in Utah. The very notion
a gene predisposing a woman to can
means some other event such as diet—
radiation—must trigger it. Even if G
man's numbers are off, he has highlig
ed the havoc well-meaning technolo
can wreak when pushed too far.

By Joan O'C. Hamilton in S
Francisco, with Neil Gross in New Y

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Developments to Watch

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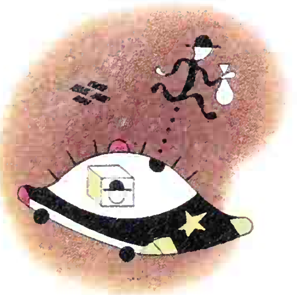


'SUSPECT IS TALL, BEARDED—WELL, CHECK THE PAGER'

EVEN A COMPANY WHOSE business is transmitting words—in this case, Paging Network Inc.—can't dispute that a picture is sometimes worth a thousand of them. When the police flash an all-points bulletin (APB) to be on the lookout for a crime suspect or missing child, a sketch or photo could be much more valuable than a verbal description. That's why PageNet jumped on the technology developed by Data Critical Corp.: a way to broadcast images via paging channels. Their new service, dubbed Image APB, is being tested by various federal and local law-enforcement agencies.

Software from Data Critical in Redmond, Wash., carves an image into multiple pager-size transmissions. Every police cruiser and beat cop equipped with a portable computer and a pager "card" would pluck the signals out of the air and reassemble them on the PC's display. An entire police force could be on the alert in minutes. And for cities that have already outfitted police cars with PCs, the cost would run about $300 per computer plus $14,000 for a transmitter. By summer, PageNet and Data Critical also plan to offer what might be called Image EKG—a similar service for sending electrocardiograms and X-rays to doctors who are on the move.

ILLUSTRATIONS BY PHILIP ANDERSON

FIRING UP CATALYTIC CONVERTERS, FAST

THE FIRST MINUTE OR TWO OF MOST CAR TRIPS PRODUCES more pollution than all the rest of the drive. That's because the catalytic converter must be frying-hot to work properly. Companies have developed ways to get the converter to "light off" faster. But they aren't effective with engines bigger than four cylinders.

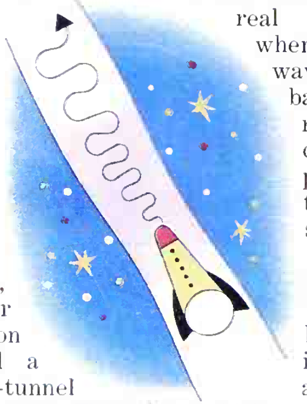
Ergenics Inc. in Ringwood, N. J., thinks it has a solution: a chemical-reaction heater that needs just four seconds to heat the front of a catalytic converter to 350C. It has two parts. Outside the tailpipe is a bottle of metal-hydride powder—granules saturated with hydrogen. In the tailpipe, a tube contains a secret alloy. When the engine starts, a valve opens and hydrogen gushes out of the powder and into the tailpipe, triggering the heat-giving reaction. Later, hot exhaust gas drives the hydrogen back into the powder.

Ergenics says independent tests show a car equipped with its Hydride Cold Start Heater can meet California's Ultra Low Emission Vehicle standard. President David H. DaCosta is seeking licensees and figures the heaters could sell in volume for about $150 apiece.

ENERGY BEAMS COULD REALLY CUT YOUR COMMUTE

IT LOOKS MORE LIKE A FLYING saucer than a sleek spaceship. It will be powered by silent microwave beams instead of roaring rockets. And its airframe is essentially a helium-filled dirigible. Despite these unconventional features, the aerospace craft being developed at Rensselaer Polytechnic Institute isn't mere science fiction.

Last month, Rensselaer's "air spike" propulsion system passed a Mach 10 wind-tunnel test with flying colors. That's only half the speed needed to get into space, but Leik N. Myrabo, the RPI associate professor of mechanical engineering who heads the research team, is confident the principle is valid for craft that could ferry tourists to the moon in six hours—or business travelers from New York to Singapore in 45 minutes.



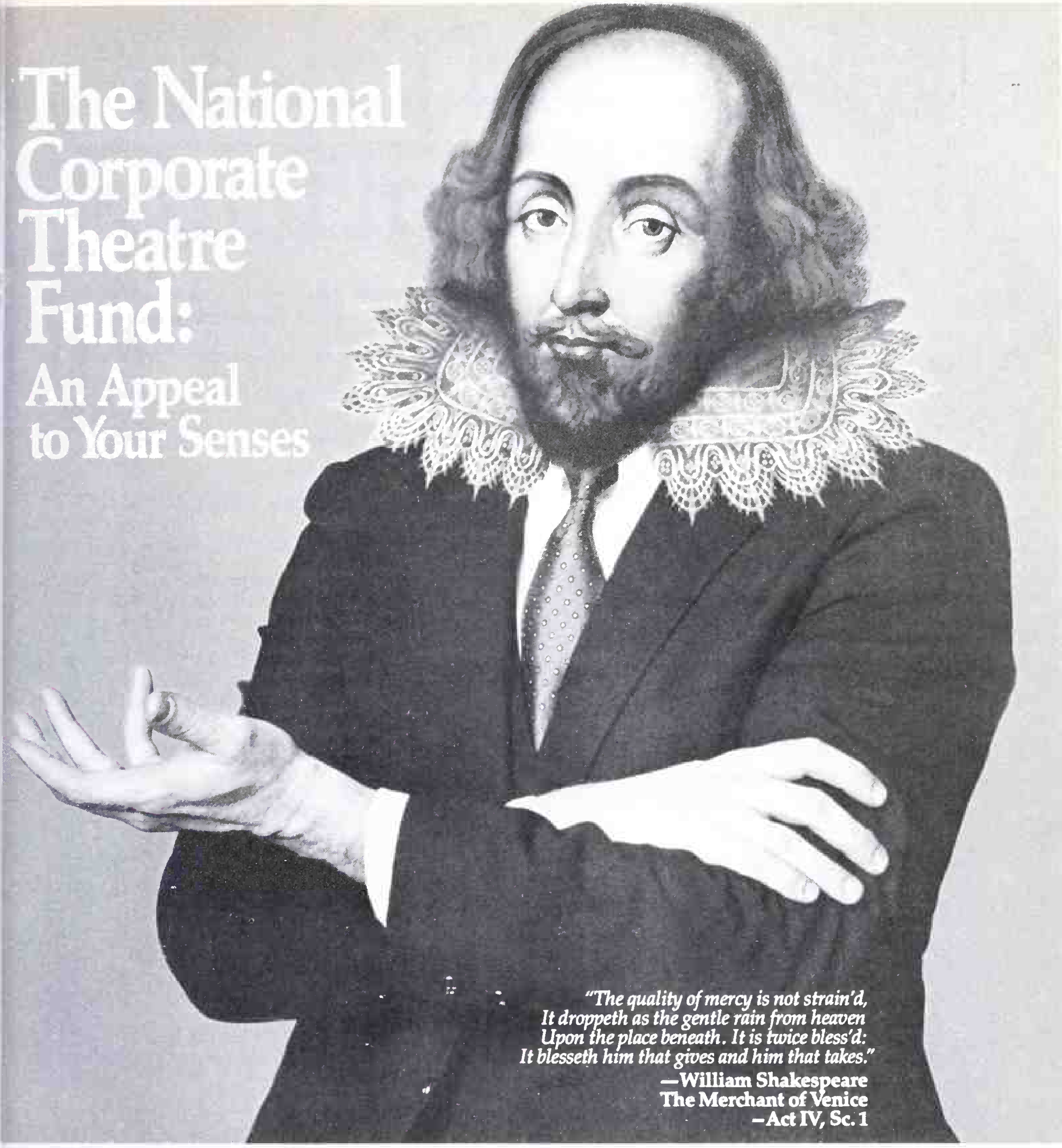
The air-spike system works by funneling microwave energy to a spikelike antenna. Its tip generates shock waves that blast away the air in front of the saucer, creating lift to suck the airframe forward. But the real action comes when the shock waves collapse back around the rim of the saucer, forcing hypersonic air into the intakes of a special jet engine. No heavy fuel is carried because the jet burns electricity—beamed in as microwaves from high-power transmitters on the ground or in space. If the wind-tunnel results at RPI attract more funding, says Myrabo, 21st century travelers may literally ride on energy-beam highways in the sky.

DIAGNOSES THAT CAST A WIDER NET

DOCTORS HAVE LONG treated complex disease such as cancer with "cocktails" of drugs tha fight illness on several fronts. But when it comes to diagnostics, fe biotech companies have adopted multipronged strategies. Their tests zero in on a single biochemical marker—usual a particular protein the body releases when hit by a disease.

This narrow focus seems odd, because in the course of an illness, tissues undergo dynami molecular changes that can leave many differen chemical trails in the blood. While humans ma have trouble making sense of these complicated patterns, computers that run "smart" software called neural networks excel at distilling information from apparent chaos. So, for five years Horus Therapeuti Inc. in Rochester, N. Y., has been "training" neural networks to discove patterns among multiple biomarkers released when a tumor invades healthy tissue. Once the system understands the variables, it can make highly accurate diagnoses based on blood tests

In clinical tests involving 800 volunteers, a ne test for prostate cancer achieved 90% accuracy—far outperforming the popular, single-marker PSA blood test. The Foo & Drug Administration now assessing the results, but Horus isn't waiting to push ahead with similar tests for colon, ovarian, and breast cancer.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"The quality of mercy is not strain'd,
It droppeth as the gentle rain from heaven
Upon the place beneath. It is twice bless'd:
It blesseth him that gives and him that takes."
—William Shakespeare
The Merchant of Venice
–Act IV, Sc. 1

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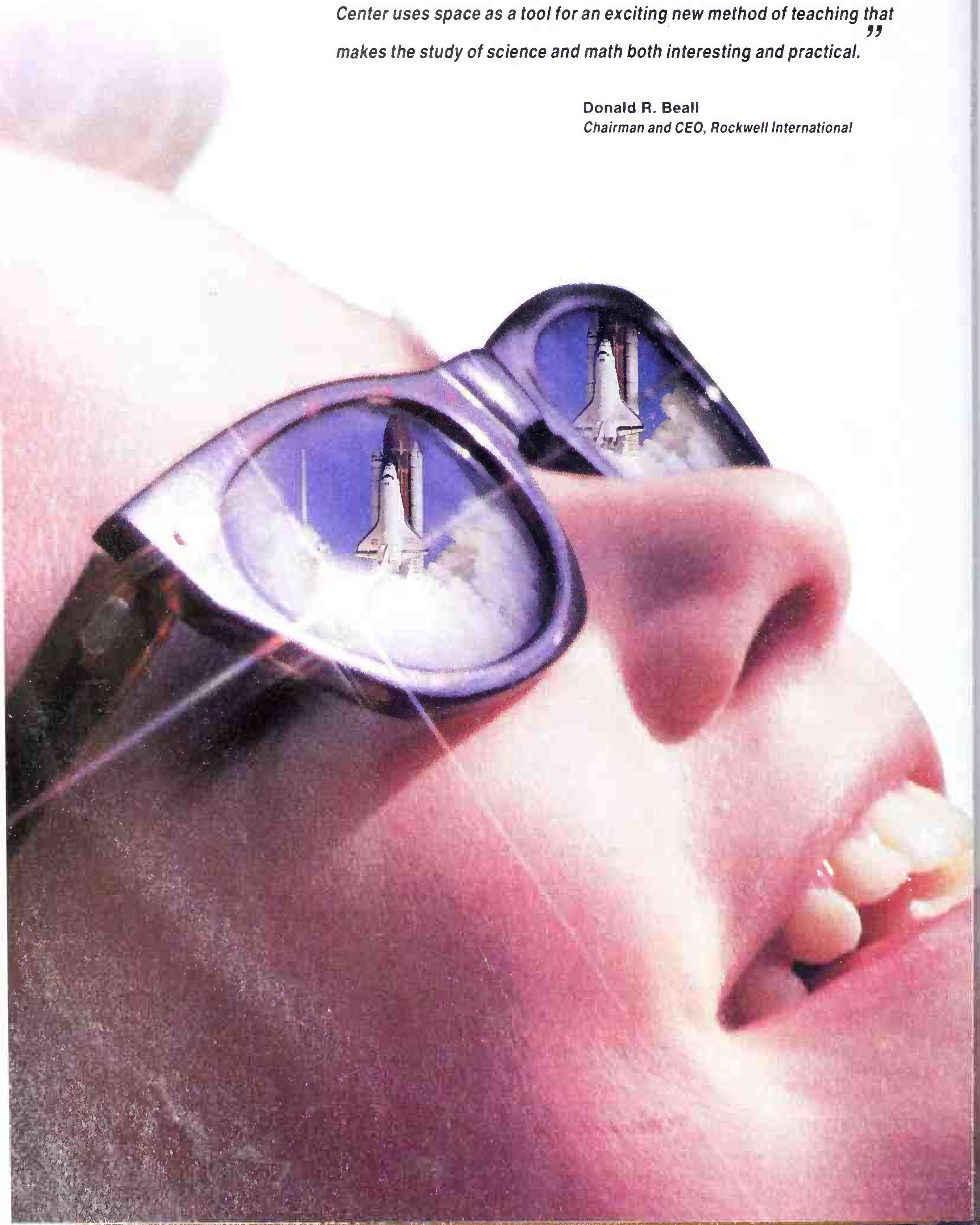
Donald R. Beall
Chairman and CEO, Rockwell International



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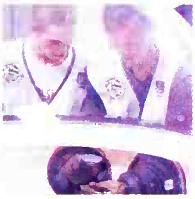

The task is a big one. And we'll need everyone's support. But there are thousands of kids out there who, with the right encouragement and opportunity, will set their sights on careers that will shape the future for generations to come. To find out how you and your corporation can provide equipment or financial support for Challenger Center, please call 703-683-9740.

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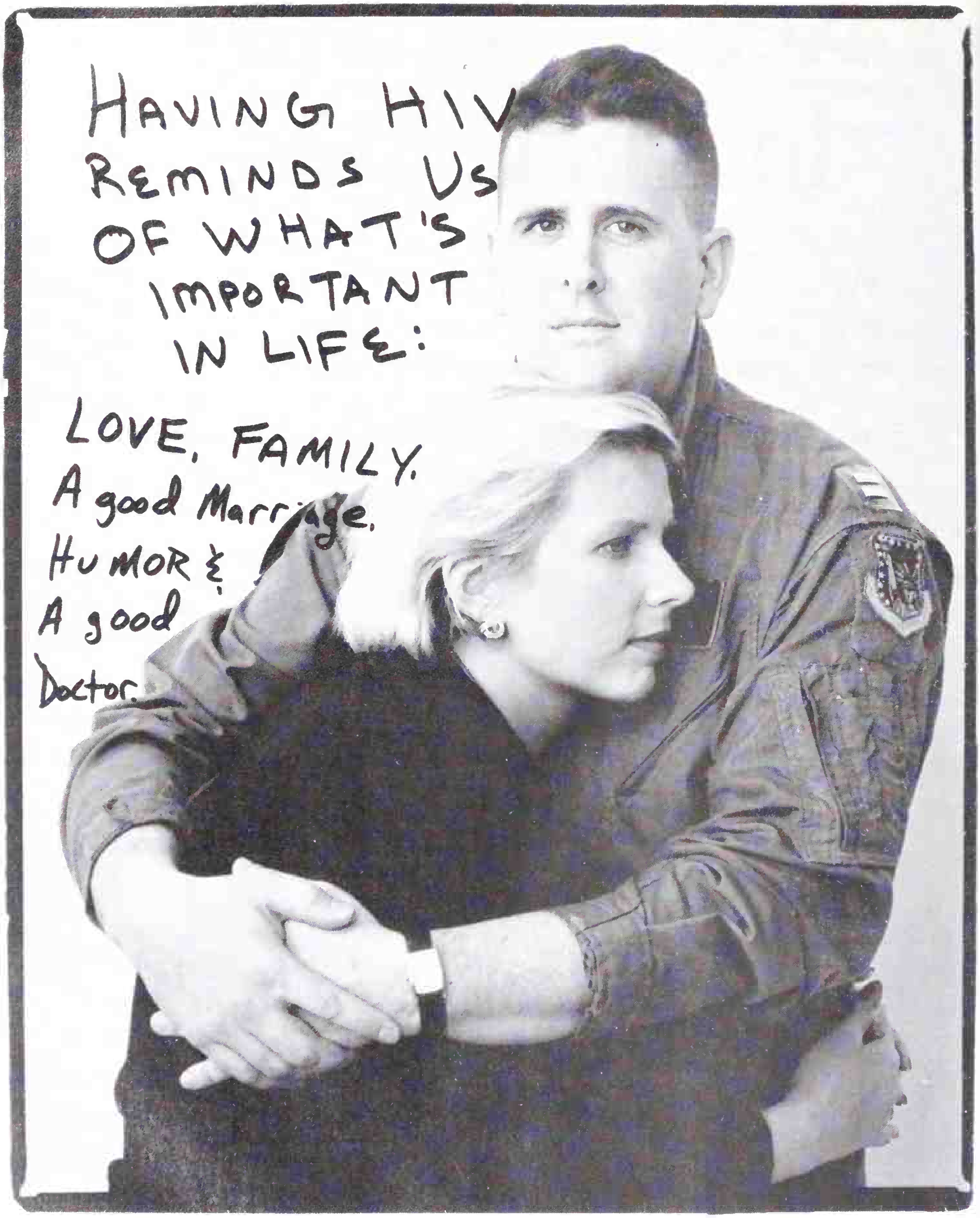
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MICHAEL [illegible] years old Captain U S Air Force and Veteran of the Gulf War Michael learned he was HIV positive two years ago

CAROL 30 years old speaks and writes about living with AIDS Carol's had HIV for several years, she was diagnosed with AIDS two years ago Carol and Michael plan to renew their wedding vows on their 10th Anniversary

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BusinessWeek

EXECUTIVE PROGRAMS

Beyond news. Intelligence.

COMPUTERS

MORE RED MEAT, PLEASE

Packard Bell, the lion of PC-Land, is widening its hunt

It wasn't all that long ago that analysts and competitors alike dismissed Packard Bell Electronics Inc. as yet another wannabe personal-computer company. Sure, it was the leader among the ragtag band of PC makers—brands such as Magnavox, Everex, and Leading Edge—that sold to consumers through mass-merchandise chains. But when the real competition jumped in—IBM, Apple, and Compaq—Packard Bell could kiss the home-PC market goodbye.

Or so they said. Not only has Packard Bell withstood the arrival of stiff new competition in home PCs, it has emerged as the country's hottest PC maker. Half of all PCs sold in chain stores are Packard Bells. In two years, sales have tripled, pushing the privately held company to $3 billion in annual revenues in 1994. This year, sales are expected to nearly double, to around $5.5 billion. Instead of ceding market share, Packard Bell has blown by the competition. Last year, it shoved aside IBM for the No. 3 spot in the U.S. In unit sales, Packard Bell has been No. 1 for the past two quarters.

Not bad for a company that has yet to buy its first national ad. Now, executives at the Westlake Village (Calif.) company have their eye on something bigger than the U.S. home-PC market. They're trying to jump-start an international expansion and push upmarket to sell low-cost PC clones to businesses, too. The company is already investing heavily overseas: It opened a factory in France last fall, started assembling computers in Brazil last month, and up an Asian division in Singapore ea er this year and is searching for a East manufacturing site. Last year, l than 10% of the company's sales w outside U.S. borders. Compaq and by contrast, sell more computers ov seas than they sell in the U.S.

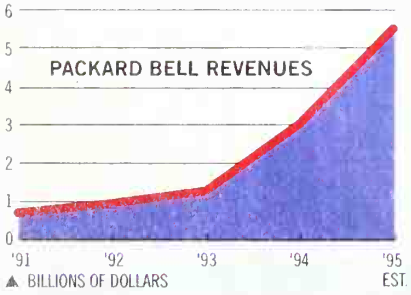
WOOING THE SUITS. The company is making aggressive moves closer home. Packard Bell has largely igno the corporate PC business. But last it recruited a Compaq Computer Co executive to build a new commercial vision. This summer, the company launch a new line of PCs, called Pack Bell Executive, which is expected to clude laptops and network servers has started building a technical sup group dedicated to corporate buy "We have always sold PCs to small medium-size corporations through retailers," says Beny Alagem, the c pany's 42-year-old Israeli-born foun and CEO. "But as we go forward, will put more emphasis on our relati ship with corporate resellers." Tran tion: Packard Bell will start sell through computer-store chains, too. has quietly signed up two chains to business PCs already.

No one expects Packard Bell to t the corporate computer market storm. For one thi this is the lucrat home turf of s mainstream compu companies as I Compaq, and D They will defend it fiercely, and—if th have to—they'll cut their prices match Packard Bell's expected come- prices hundreds of dollars below comp itive models.

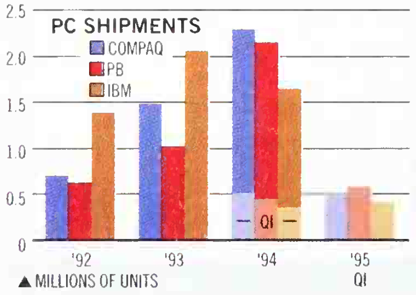
FIELD OF GREEN *CEO Alagem can't compete on price alone*

Packard Bell may also find that l prices are less important to corpor buyers than they are to consume Businesses tend to look at other f tors, such as the cost of training, s ware, maintenance, support, and u-

WITH GROWTH DRIVEN BY THE HOME-PC BOOM...



...PACKARD BELL HAS BECOME THE VOLUME LEADER...

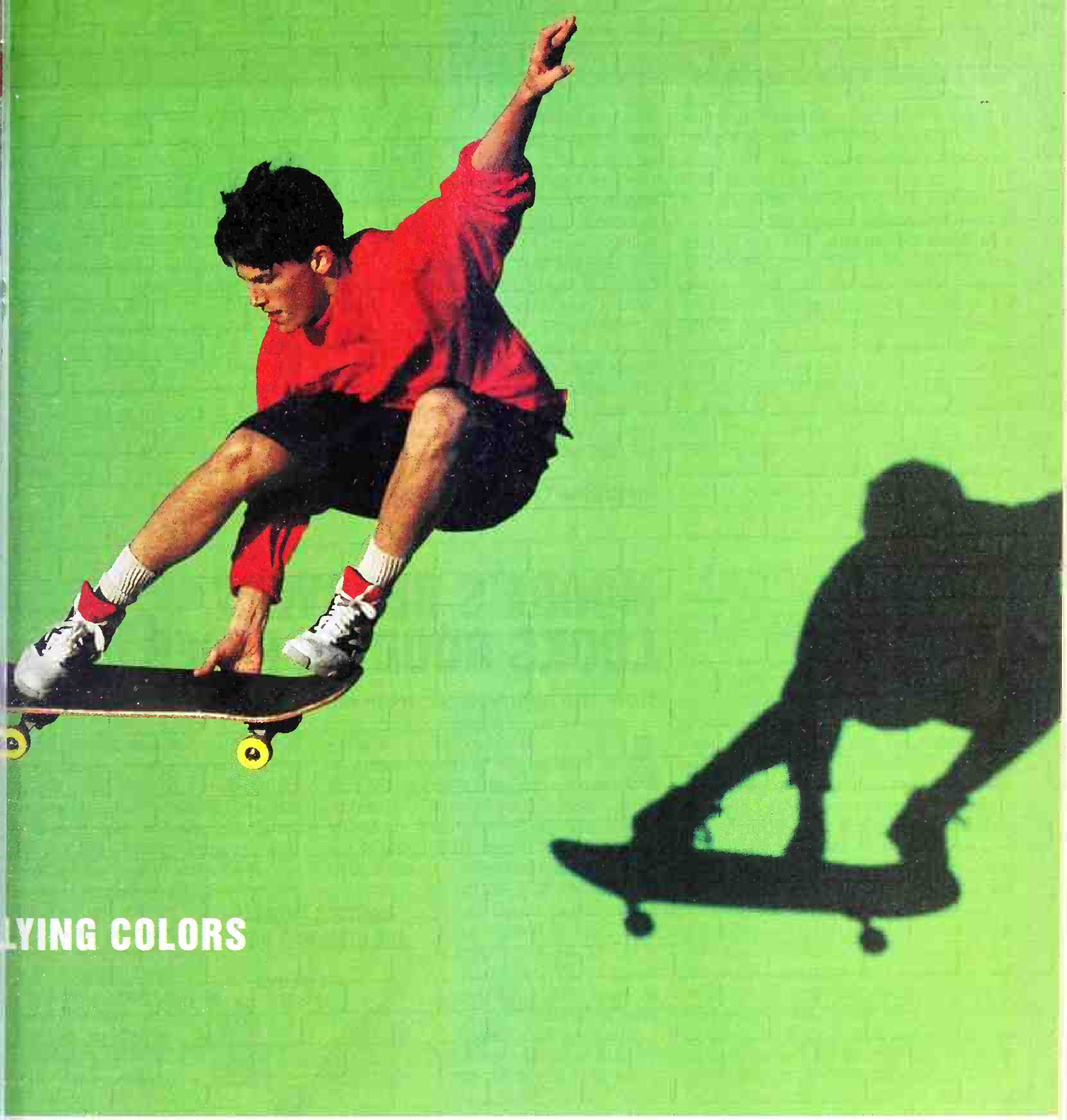


...AND NOW HAS BIGGER PLANS

BUSINESS MARKETS New Commercial Group is designing models specifically for business customers.

INTERNATIONAL In 1994, only 10% of revenue came from outside U.S., vs. 50% or more for rivals such as IBM. The new push includes factories in France and Brazil and the launch of an Asian division.

DATA: COMPANY REPORTS, BW ESTIMATES, INTERNATIONAL DATA CORP.



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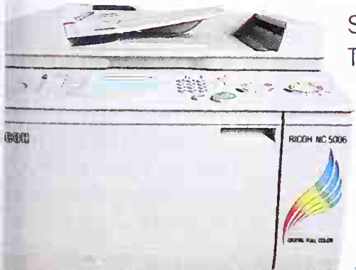

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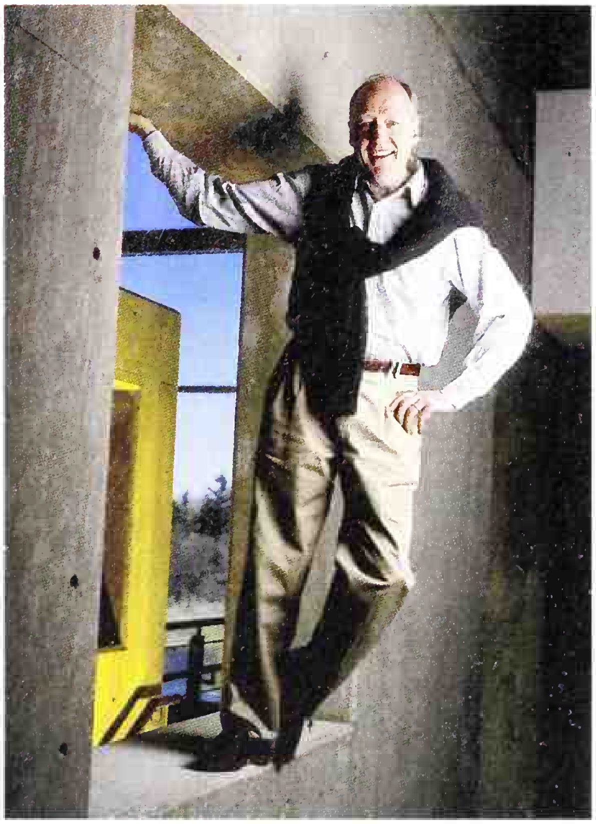
to $6.6 billion by 1998, from nearly $8 billion in 1993. In contrast, sales of software that turns out electronic forms, while less than $300 million today, are growing at least 25% a year.

As the industry leader, Moore still serves a roster of blue-chip customers. But a complacent, ingrown management let competitors "eat our lunch for 20 years," complains Braun. He says Moore's share of the U.S. forms market slipped to just 13% last year from over 30% two decades back. The result: Between 1990 and 1993, its total sales dropped 16%, to $2.3 billion, while profits nosedived. "Moore reminds me of General Motors," says the CEO of one rival. "It's awfully difficult to turn around an aircraft carrier when everyone else has a fast-moving destroyer."



MICHAEL ABRAMSON

Between 1990 and 1993, Moore's total sales fell 16%. Under Braun, it's battling back, recently sealing a $200 million, five-year deal.

Still, if anyone is up to this job, it's Braun. As No. 2 at Unisys, he won glowing reviews for guiding a brutal restructuring that restored profitability. That performance drew attention from Moore, whose board had been looking, for the first time, to hire a CEO from outside the company. In Braun, it got a disciplined leader, who relaxes by skiing and hiking in the Alps. After 25 years in computers, he quickly grasped the technical challenge.

PULP FACTION. "I don't want to be the last guy holding the flag for forms," Braun says, but in the next breath he insists that "paper is not going to vanish." While electronic forms may work well for internal communications, most companies still rely on paper for their dealings with consumers, whether it's bills or direct-mail marketing. So, Braun argues, what Moore must do is expertly apply just the right mix of paper and electronics. "If they do it right, they can retain customers and grow," says Steve Weissman of Hurwitz Consulting Group, based in Newton, Mass.

Braun's plan is to get the required technical expertise in a hurry. Last August, Moore bought 20% of Jetform Corp., a leading supplier of electronic-forms software, and negotiated an option to acquire full control. On Sept. 26, Moore signed a 10-year, $1.7 billion alliance with Electronic Data Systems Corp., General Motors Corp.'s computer consulting arm, which will help Moore streamline customers' businesses. One of the first joint projects: using laptops to reengineer and automate Moore's own sales-force and order-entry operations. Then, on Mar. 29, after announcing alliances with Indigo and Xerox Corp., Moore unveiled a digital print network. It will let customers design documents on their own workstations and instantly transmit the designs to the nearest Moore plant for printing. Using this system, for example, the Best Western chain is creating customized brochures for its motels.

Moore is winning some big orders. In December, it signed a deal, worth up to $200 million over five years, with Amerinet Inc., a large health-care purchasing organization. EDS, which previously bought forms from many companies, is also turning over to Moore its entire $75 million-a-year internal forms business. Moore can help save "mi
of dollars a year" by eliminating
less duplication of forms, helping
print forms as they're needed, an
verting paper flows to digital netw
when appropriate, says EDS Purch
Director Benny Welch.

Moore's prospects look even bri
in two smaller units—direct mai
labels—where computerization is a
ly boosting paper use. Serving gia
ents such as *Reader's Digest*,
ranks as the world's largest pro
of personalized direct mail. This
ness, too, is getting more high-tech.
fore, Moore was only a printer.
we're moving into database ma
ment," says Louis J. Rupnick, pre
of Moore's $507 million Customer
munication Services unit. The prom
"to massage vast customer lists t
duce highly targeted marketing,"
nick says. His goal: to expand M
direct-mail business by as much a
a year.

STICKLESS STICKERS. The once
dane business of producing stick
bels is also mushrooming, as comp
increasingly apply bar-coded stick
track products all the way from fa
floor to retail shelf. Led by Richa
Majewski, a veter
the labels industr
cruited by Braun
fall, Moore is spe
heavily to muscl
way into this frag
ed, $13 billion m
Majewski expects
sales to soar 30
about $250 million
year, and it "could become a $1
business in five years," Braun pre
One big hit: a new backing-less
that's helping the U.S. Postal Se
save 60% on changes of address.

Can Moore thrive in the Comp
Age? It has the money, says Mart
McDevitt, an analyst at Cleary,
Reiland & McDevitt Inc., "to do wh
er it wants." Between $564 milli
cash and some modest borrowing, B
figures he can spend up to $1 billi
vital acquisitions. And following t
straight years of decline, sales act
climbed 3% in 1994 and a further 6
the first quarter of 1995. Per-share
ings, meanwhile, soared 35% in the
quarter, not counting the proceeds
selling most of its stake in a Japa
operation. Still, "the jury is still
on Moore's long-term future, McD
cautions. As in the old children's g
hardware, whether it's scissors or si
beats paper.

By William C. Symonds in Tor

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BUSINESS WEEK'S 1995 ANNUAL REPORT DIRECTORY

In today's complex economic environment, and with political uncertainty in many parts of the world...making intelligent investment decisions is not easy. Nothing tells a company's 'story' better than their annual report. The following companies in this BUSINESS WEEK Annual Report Directory are leaders in their respective industries. Each has an exciting story to tell potential investors.

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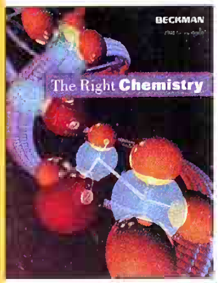
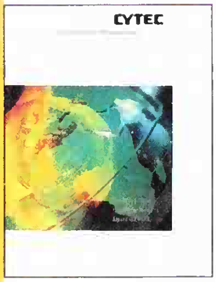


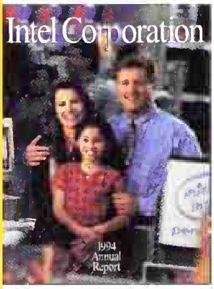
Beckman's business is focused on the chemistry of life. The company designs, manufactures, sells and services biological laboratory systems for biotechnology and life sciences researchers and hospital laboratories.

CYTEC



Cytec Industries Inc. is an integrated global specialty chemicals company that serves a wide range of industries, including water treatment, paper, chemical and polymer processing, coatings, plastics, mineral processing, oil drilling and recovery, aerospace, textile, and automotive. The Company's primary strategic focus is on value-added specialty chemicals and specialty materials, a significant portion of which utilize key intermediates manufactured by Cytec. (NYSE:CYT)

Intel



Intel (NASDAQ:INTC) is the world's largest semiconductor manufacturer, supplying the personal computing industry with microprocessors, boards, systems and software that are the "ingredients" of the most popular computing architecture. These products help create advanced computing systems for personal computer users.

Intel supports the computing industry's needs for strategic products that provide performance, mobility, connectivity and digital video computing. Intel does this through investing heavily in internal design, manufacturing and development capabilities, while driving the evolution of new generations of high-performance products.

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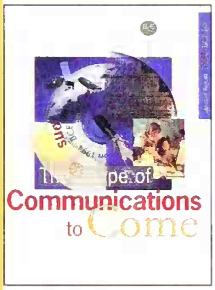

BCE Inc. is Canada's largest telecommunications company. Subsidiaries include Bell Canada, Northern Telecom, BCE Mobile Communications, Bell Canada International and Tele-Direct. Earnings in 1994 were Cdn $1.2 billion on revenues of Cdn $21.7 billion. BCE is listed on exchanges in Canada, Europe and Japan and on the NYSE.

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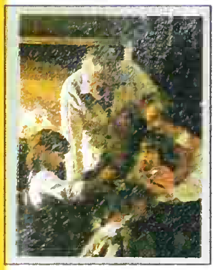

Roberts Pharmaceuticals (NASDAQ:RPCX) is realizing its goal of becoming a major pharmaceutical company whose diverse products are directed at benefitting individuals of all ages. Our new product development program coupled with our strategic acquisitions and licensing activities have created a company with a well-balanced product portfolio concentrated in six key therapeutic areas.

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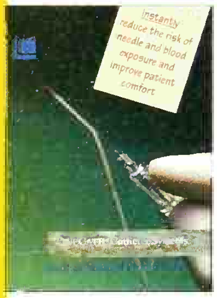
Earnings $50,094,000; EPS $0.87 (NYSE: S

Luther Medical Products


Instantly reduce the risk of needle and blood exposure and improve patient comfort

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Luther Medical Products, based in Tustin California, is a well capitalized designer and manufacturer of patented intravenous catheter systems. Having spent the last year establishing a strong nationwide network of distributors, Luther is experiencing revenue increases at a rate greater than 100% per year in the fast growing $200 million catheter market in which it operates.

Mr. David Rollo, Pres.& CEO Luther Medical Products 714-544-3002 ext.203 Mr. Shannon T. Squyres, Corporate Relations Group 800-755-1860

Symbol Technologies, Inc.

Symbol Technologies, Inc. (NYSE:SBL) is the
leader in bar code-driven data transaction sys
with 1994 sales of $465 million and more tha
million scanners and terminals insta
InformationWeek magazine lists Symbol amon
10 "hottest of the hot" companies for 1995. B
in Bohemia, N.Y., the company designs, manufa
and markets bar code reading equipment, por
data terminals and radio frequency data comm
tions networks that are used as strategic bui
blocks in information systems for retail, manuf
ing, package and parcel delivery, warehousing
distribution and other industries.

Telia Group

telia

The Telia Group offers public and private networks for telephony, data communications and mobile telephony. In 1994, the Telia Group's revenues totalled SEK 38,000 million. Return on capital employed was 12.3%. Telia invested a total of SEK 8,300 million.

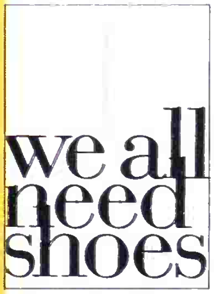
TELUS Corporation

TELUS is a $4 billion telecommunications comp
headquartered in Alberta, Canada. Subsidi
include AGT, Canada's third largest phone comp
and AGT Mobility, which achieved 58% cel
growth in 1994. Partnerships include Telece
which is licensed for combined cable TV and pl
services to over 600,000 homes in the U
Kingdom. TELUS (symbol "AGT") is in the Tor
35 index on the Toronto Stock Exchange.

CSF Holdings, Inc.

CSF Holdings, Inc. (principal subsidiary is Citizens Federal Bank which is a $4.6 billion Florida-based thrift institution) had another excellent year in 1994 achieving net earnings of $41.1 million or $4.01 per share. The Company achieved a 16.3% return on stockholders' equity and a .91% return on assets. Net earnings for the past three years totaled $137 million. Citizens was founded in 1952. The Company has a strong capital position.

Nine West Group Inc.



Nine West Group Inc. is a leading desig
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footwear in the "better," "upper modera
and "moderate" price ranges through
2000 department, specialty, and indepen
stores and 406 company-owned retail store

ouron Pharmaceuticals, Inc.

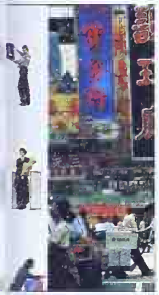
Agouron Pharmaceuticals, Inc. is a pioneer and leader in the field of structure-based drug design and is applying this technology to engineer novel synthetic drugs for use in the treatment of cancer, AIDS and other serious diseases. Currently in clinical trials are two anti-cancer drugs for solid tumors and an HIV protease inhibitor.

vay Group

Solvay is a worldwide chemical and pharmaceutical Group with consolidated sales in excess of USD 8 billion worldwide.

The strategy followed by Solvay is to be world leader in its five sectors of activities: alkalis, peroxygens, plastics, processing and health, while improving the quality of its products through continuous and cost-effective innovation.

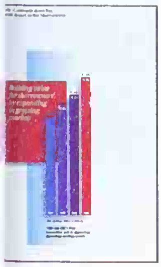
selte



Esselte is a worldwide Group focusing on the manufacture and distribution of products for offices and retail stores.

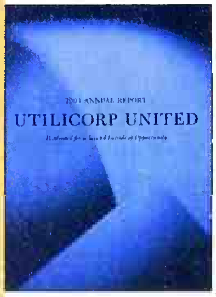
Sales for 1994 amounted to SEK 12,123 m. (11,843). Income before tax was SEK 413 m. (301). Return on capital employed increased to 11.9 percent (8.3).

C Communications



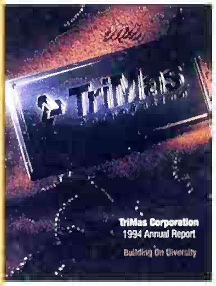
SBC Communications Inc. (NYSE:SBC) provides telephone, cellular, cable TV and advertising services and products to customers worldwide. From 1984 to 1994, a $100 investment in SBC stock would have grown to $741. Total return includes stock price appreciation plus dividends. Based in San Antonio, Texas, SBC ranked 34th on the 1994 Forbes list of the largest U.S. companies.

UtiliCorp United



UtiliCorp (NYSE:UCU) is uniquely positioned to succeed in deregulated energy markets. In 1994 the company earned a record $94.4 million and introduced EnergyOne^{SM}, a national brand for its products and services. UtiliCorp operates utilities in eight states and British Columbia, markets gas and electricity nationally, and has joint ventures in the United Kingdom, New Zealand and Jamaica.

TriMas Corporation

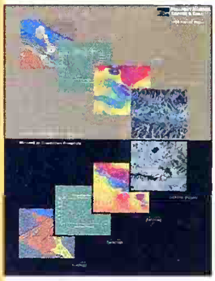


(NYSE:TMS)

TriMas Corporation, a leading diversified manufacturer of proprietary products for commercial, industrial and consumer niche markets, recorded Another Record Year in 1994. During the year, TriMas continued the successful execution of its proven strategies for growth and achieved record sales, operating earnings, cash flow and earnings per share.

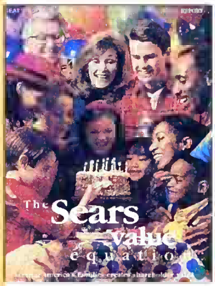
Send for our Annual Report to learn why we believe 1995 will be Another Record Year.

Freeport-McMoRan Copper & Gold Inc.



Freeport-McMoRan Copper & Gold Inc. (NYSE:FCX) is one of the world's largest and lowest cost producers of copper and gold. Through our principal operating unit, P.T. Freeport Indonesia Company, we are engaged in the exploration, mining, and milling of copper, gold, and silver in Irian Jaya, Indonesia. Even as we increase our targeted ore milling production by 74%, our reserves are estimated to exceed 25 years.

Sears, Roebuck and Co.



Sears is returning to its retailing roots by spinning off its 80 percent ownership of Allstate Insurance Co. to shareholders and selling Homart Development Co. Sears then will be composed primarily of merchandise operations that serve a customer base of 50 million households through a network of mall-based department stores and specialty stores. Sears posted 1994 earnings of $1.45 billion on revenues of $54.6 billion.

EDITED BY AMY DUNKIN

LEARNING TO LIVE WITH RISK —AND LOVING IT

INVESTING

There's no way around it: In the world of investing, risk goes hand in hand with returns. You'll need to assume many kinds of investment risk to achieve long-term goals, like saving for retirement or paying for a child's education. Yet instead of embracing risk and using it to their advantage as money managers do, individuals typically see risk as the enemy. "People are irrationally scared of it," says Jay DeMartine, head of marketing at Strong Funds. "It's like another word for bad."

Understandably, mutual-fund companies don't spend ad space extolling the risks of their funds. But several debacles last year—such as emerging-market funds crashing in December, or safe-sounding short-term government income funds losing principal—have convinced the Securities & Exchange Commission that fund companies need to do a better job describing risk. The SEC's most controversial idea is to choose a single risk measure and require fund companies to provide it to shareholders. The industry has argued that all options for quantifying risk have limitations and could confuse investors. Instead, it suggests streamlining risk discussion in the prospectus and using charts and graphs.

INTIMIDATED. Industry members will continue the debate at their annual conference in Washington on May 17-19. But now, the SEC is interested in what shareholders think. It has asked the public for suggestions on how mutual-fund risk disclosure could be improved. You can obtain a questionnaire, which must be returned by July 7, by calling 800-SEC-0330.

There are many types of risk, but the SEC has focused on one kind: the risk of volatile returns. Academics have come up with many ways to calculate this, and the SEC is evaluating them to see which ones investors find most useful. When fund-searching, don't be intimidated by terms like beta, alpha, or standard deviation. You don't need to know how to calculate the numbers; fund analysts such as Morningstar Inc. and Value Line list most of them in their publications. And while the measures have limitations, they aren't hard to grasp. Use them to choose a fund after you've narrowed your search to a handful in the same class or see how your own funds stack up on risk.

Beta typically tells you whether your stock fund is riskier or tamer than the Standard & Poor's 500-stock index (or how your bond compares to a bond ind It works very well when use it to assess diversified uity funds that follow market, says Sheldon Jac who reports beta in his ne letter, *No-Load Fund In tor*. But because it meas risk relative to an index, doesn't mean much if benchmark isn't right. funds are very risky. since they don't move the stock market, they to have low betas.

Alpha, which is deri

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Fund Certificate
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average return. Since it
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be used to compare funds
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example, based on month-
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l is 9.84 percentage points.
d funds rate 5.15.
tandard deviation is use-
because it can give a

range of returns you can reasonably expect in a coming year. Returns for a fund with a standard deviation of 4 and an average return of 5% should fall between 1% and 9% two-thirds of the time. Some professionals argue that doesn't do you much good, since there's still a 1-in-3 chance the returns will be out of that range. Other critics point out that a fund that declines steadily month after month will have a low risk score, even though investors are losing money all the time.

MISLEADING. Since investors are mainly concerned with the risk of losing money, BUSINESS WEEK and Morningstar use a model that only takes into account investment loss. This measure looks at the amount a stock fund trailed the Treasury-bill return each month compared to the equity fund average (or muni funds to muni funds). But Stephen Savage, editor of *Value Line Mutual Fund Survey*, which uses standard deviation to calculate risk ratings, argues it's misleading to look only at the downside, since you can't achieve a high positive return without risk.

Of course, the simplest way to illustrate fund volatility is with a series of bar charts showing total return for each of the past 10 years. That's a move T. Rowe Price is making in its brochures and that the SEC also asks about in its survey. The problem is you can't use bar charts to compare different funds. T. Rowe Price is also starting to show a fund's worst quarter (assuming it was at least a 10% loss), so investors will recognize the potential for short-term losses.

Risk By Definition

STANDARD DEVIATION Looks at how much the fund's returns vacillate each month from its average return. The higher the number, the more volatile a fund is.

BETA Measures how the fund has performed relative to a benchmark (the Standard & Poor's 500 index for stocks, Lehman Brothers index for bonds). A stock fund with a beta of 1 matched the market. A fund with a 1.1 beta did 10% better in up markets, 10% worse in down markets.

ALPHA Compares a fund's actual return to its expected return, given its beta risk. A positive alpha means the manager did better than the fund's beta would predict.

DOWNSIDE RISK Looks at loss risk based on how much a fund trailed the return you'd have gotten from a risk-free T-bill. Morningstar's (and BUSINESS WEEK's) measure expresses fund risk relative to the average fund in its class, which equals 1. A rating of 1.35 means a fund underperformed 35% more than the average fund.

DATA: MORNINGSTAR INC., IBBOTSON ASSOC.

Risk-Rating Some Funds

MEASURE*	STRONG SHORT-TERM BOND	FIDELITY MAGELLAN	MONTGOMERY EMERGING MARKETS
STANDARD DEVIATION	0.74	2.86	4.71
BETA	0.52	1.04	0.7
ALPHA	–0.11	2.87	2.54
DOWNSIDE RISK	0.64	0.79	1.28
3-YEAR AVERAGE RETURNS	5.34%	13.8%	10%

*5/1/92 through 4/31/95

DATA: MORNINGSTAR INC.

There are some big problems with measuring risk based on historic returns. It certainly won't prepare you for major market events, like Mexico's meltdown, or last year's extraordinary bear market for bonds. If the fund changes managers or strategies, the historic performance may not be relevant. Also, "risk measures may not be typical if the fund isn't old enough," says Jacobs.

Ultimately, the ideal way to figure out the riskiness of a fund is to get inside the portfolio and examine the holdings. But since fund managers like to keep their strategies secret from competitors, the closest you can come is to glimpse a day's worth of holdings in the annual and semiannual reports. Morningstar and Value Line can help you get a handle on currency risk, derivatives, and, for bond funds, credit risk and average maturity.

For a year, some bond-rating companies have been assessing bond funds for risk. But sorting through the portfolio is time-consuming and costly, and only funds that pay for this service are rated. Plus, the National Association of Securities Dealers, which regulates fund advertising, recently decided these measures cannot be used in ads, since readers can interpret them as predicting future returns. Sanford Bragg, head of S&P's Managed Funds Group, says this "defies logic" when the SEC is trying to improve risk disclosure.

Even if the SEC finds a better way to disclose risk, an element of trust will always be necessary in mutual-fund investing. There are several ways to minimize risk when constructing a portfolio. Invest long-term, since that way you ride out cycles. Also diversify across asset classes. And you can reduce the risk that you'll put all your money in at the market high by dollar-cost averaging—investing a set amount of money at regular intervals.

Strong Funds' DeMartine says investors need to get over their fear of risk and look it "square in the eye." You'll need to learn how risk works in your portfolio. After all, if you want decent returns, you can't afford to run away from risk. *Amey Stone*

A MODERN GARDEN WITH GRANDMA'S SEEDS

GARDENING

Dissatisfied with produce that is rough and ready rather than tender and tasty, more backyard gardeners are getting to the root of the matter by planting heirlooms. These fruit and vegetable varieties, usually 50 years old or more, owe their existence to families who passed prized seeds down through the generations, like so many tintype photos.

Old-timers such as "Get Set Red" onions, "Pink Pearl" apples, and "Yellow Ruffle" tomatoes have heritages as rich and colorful as their family-given names. Furthermore, "their flavor is absolutely outstanding. That's why people were motivated to save them," says Craig LeHoullier, a research chemist who grows hundreds of heirlooms as a hobby in his Raleigh (N. C.) garden.

Hybrids, the mainstay of most commercial seed companies' inventories since World War II, are the result of intraspecies cross-breeding. Like cattle owners who pair their best stock to produce superior calves, breeders selectively pollinate plants to create exceptional seeds. However, what is exceptional to major seed suppliers may not be so to the backyard gardener. Large companies breed hybrids to suit commercial growers, who want seeds that ripen simultaneously and yield identically shaped produce with skins tough enough to survive the bumpy road to market.

Backyard gardeners want their harvests to spread throughout the season, are bored by uniformity, and needn't tolerate toughness since their produce doesn't travel. "Hybrids may have good timing, be good for shipping, and have good color, but the good taste and texture are missing," says Tessa Gowans, seed coordinator with Abundant Life Seed Foundation, which tracks down heirlooms and makes them available to the public through its catalog (table).

Organizations such as Abundant Life are few but far-reaching. Kent Whealy of the Seed Savers Exchange says his group's membership has doubled in the past five years. When he started Seed Savers in 1975 as a clearinghouse for endangered heirloom varieties, six people comprised its seed-swapper network. Today, more than 8,000 gardeners in 32 countries exchange seeds, cultivation techniques, and plant histories by referencing the 390-page *Seed Savers Yearbook*. The tome lists more than 15,000 rare and unusual fruits and vegetables along with names and addresses of members with seeds to spare.

Seed-saving networks also preserve plant varieties that might otherwise become extinct. Flight to the cities has left aging horticulturists with no land-owning heirs to pass their seeds on to. The networks help carry on strains brought to this country by
immigrants centuries
Salvaging seeds from
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MOTHER NATURE. How
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Beyond cost savings,
loom growers report
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lier says. "If they wer
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Kate Mur

D. CAVAGNARO

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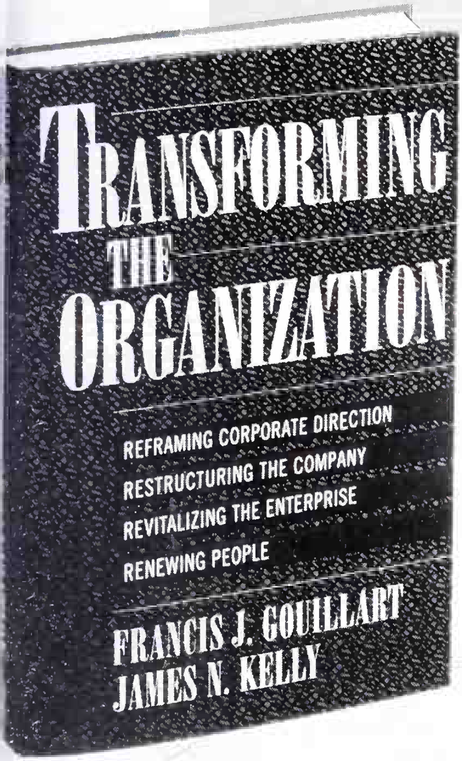
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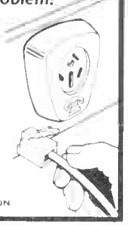

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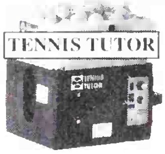

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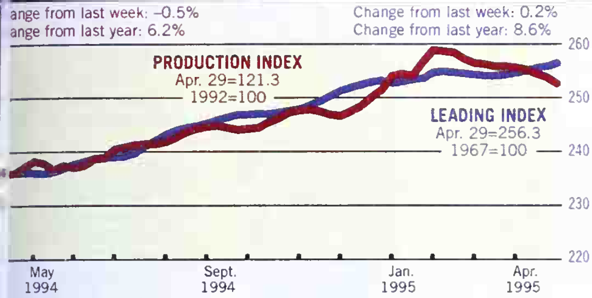
usiness Week Index

DUCTION AND LEADING INDEXES



lexes are 4-week moving averages

roduction index slipped during the week ended Apr. 29. Before lation of the four-week moving average, the index also fell, to 120.8, 121.9. For the month of April, the index dropped to 121.3, from 122.8 arch.

eading index increased during the latest week. The unaveraged index also to 257.4, from 256.3. That reflects the rallies in the stock and bond ets. The April index stood at 256.3, up from March's 254.5.

duction index copyright 1994 by The McGraw-Hill Companies   BW leading index copyright 1994 by CIBCR

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (5/5) S&P 500	518.05	513.18	14.8
PORATE BOND YIELD, Aaa (5/5)	7.91%	8.00%	–0.8
STRIAL MATERIALS PRICES (5/5)	115.1	115.1	NA*
INESS FAILURES (4/28)	NA	NA	NA
. ESTATE LOANS (4/26) billions	$475.3	$474.3r	11.8
EY SUPPLY, M2 (4/24) billions	$3,612.0	$3,601.7r	1.8
IAL CLAIMS, UNEMPLOYMENT (4/22) thous.	351	341	5.4

ces: Center for International Business Cycle Research (CIBCR), Standard & s, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures ge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ess failures and real estate loans. *Historical data available from CIBCR.

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (5/9)	5.95%	6.01%	3.70%
IMERCIAL PAPER (5/9) 3-month	6.04	6.12	4.73
TIFICATES OF DEPOSIT (5/10) 3-month	5.97	6.07	4.68
D MORTGAGE (5/5) 30-year	8.45	8.46	8.68
USTABLE MORTGAGE (5/5) one-year	6.24	6.24	5.30
IE (5/10)	9.00	9.00	6.75

ces: Federal Reserve, HSH Associates, Reuters Holdings PLC

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (5/6) thous. of net tons	1,953	1,995#	1.3
AUTOS (5/6) units	134,705	146,204r#	-7.2
TRUCKS (5/6) units	117,639	120,635r#	-3.7
ELECTRIC POWER (5/6) millions of kilowatt-hrs.	55,054	54,241#	2.5
CRUDE-OIL REFINING (5/6) thous. of bbl./day	13,972	14,125#	-2.2
COAL (4/29) thous. of net tons	20,135#	19,478	1.0
PAPERBOARD (4/29) thous. of tons	909.6#	928.1r	4.5
PAPER (4/29) thous. of tons	856.0#	856.0r	7.8
LUMBER (4/29) millions of ft.	436.8#	418.5	-2.0
RAIL FREIGHT (4/29) billions of ton-miles	24.4#	23.7	4.7

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA¹, SFPA², Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (5/10) $/troy oz.	383.200	388.700	1.4
STEEL SCRAP (5/9) #1 heavy, $/ton	142.50	137.50	10.9
COPPER (5/6) ¢/lb.	129.0	132.5	32.9
ALUMINUM (5/6) ¢/lb.	86.5	89.4	37.3
COTTON (5/6) strict low middling 1-1/16 in., ¢/lb.	105.56	107.65	31.6
OIL (5/9) $/bbl.	19.64	20.13	10.0

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (5/10)	83.45	83.25	104.68
GERMAN MARK (5/10)	1.39	1.37	1.67
BRITISH POUND (5/10)	1.59	1.62	1.50
FRENCH FRANC (5/10)	4.87	4.90	5.74
ITALIAN LIRA (5/10)	1622.3	1664.5	1608.5
CANADIAN DOLLAR (5/10)	1.36	1.36	1.38
MEXICAN PESO (5/10)³	5.875	5.840	3.320

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

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data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

SING STARTS

day, May 16, 8:30 a.m. ▶ Housing s probably rebounded a bit in April, to nnual rate of 1.28 million, according to nedian forecast of economists surveyed ms International, one of The McGraw-Companies. A drop in fixed mortgage temporarily boosted home buying. The rise would be the first increase in ebuilding since December. In March, s plunged a surprising 7.9%, to a 1.21 on pace.

STRIAL PRODUCTION

day, May 16, 9:15 a.m. ▶ Output at ation's mines, utilities, and factories ably dropped 0.4% in April, after slipping 0.3% in March. That would be the first back-to-back decline in two years. The April drop is indicated by the fall in factory jobs and work time, especially overtime. Auto makers probably led the cutbacks in manufacturing output, but the weakness was widespread. Operating rates likely also slipped lower last month. The MMS forecast expects that the capacity utilization rate fell to 84.3% in April, from 84.9%.

INTERNATIONAL TRADE

Thursday, May 18, 8:30 a.m. ▶ The trade deficit for goods and services was probably little changed in March, from February's $9 billion. The MMS economists expect little change in either exports, which rose 2.4% in February, or imports, down 2% in February. However, because foreign-made goods accounted for some of the inventory buildup in the first quarter, imports may have fallen in March. That would mean some narrowing in the trade deficit.

FEDERAL BUDGET

Friday, May 19 ▶ The U. S. Treasury is expected to report a surplus of $38 billion for April. That's more than double the $17.5 billion surplus reported in April, 1994. Stronger income growth last year boosted individual tax payments due by Apr. 17, and the second installment of the 1993 tax hike on the wealthy was expected to bring in an additional $4.2 billion.

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Sunday: This is the week for BW's annual list of Hot Growth Companies. Talk about the top 100 with growth-fund manager Gary Pilgrim of PBHG and BW's Jane Sasseen. **May 14**
9 p.m. EDT in the Globe

Tuesday: Investing in science and technology—advice from T. Rowe Price's Charles A. ("Chip") Morris and BW mutual-fund guru Jeffrey Laderman. **May 16**
8 p.m. EDT in the Coliseum

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vestment Figures of the Week

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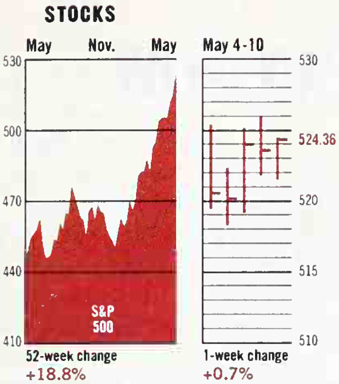
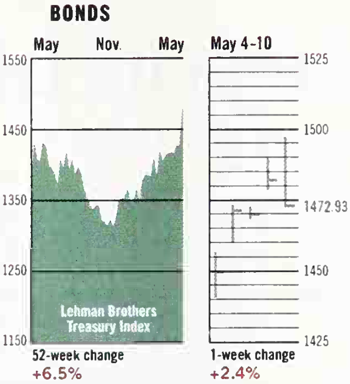
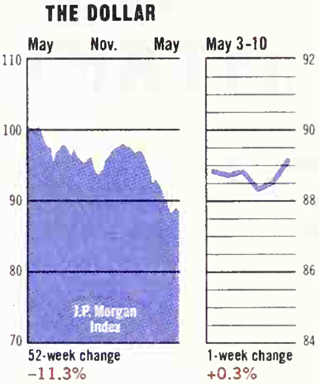
. The bond market went on
is investors were cheered
gns of a slowing economy
ging inflation. The yield of
ark 30-year Treasury bonds
ow as 6.9% on May 9. But
d rally fizzled on May 10, as
were upset by lackluster re-
to a 10-year-note auction.
k market responded
to the bond rally, with the
es industrial average
g above 4400, for the first
May 10.







KET ANALYSIS

OCKS	Latest	% change Week	52-week
NES INDUSTRIALS	4404.6	0.7	21.4
COMPANIES (S&P MidCap Index)	187.0	0.4	12.4
OMPANIES (Russell 2000)	267.8	0.3	9.0
PANIES (Russell 3000)	297.6	0.8	16.9

GN STOCKS	Latest	% change (local currency) Week	52-week
(FINANCIAL TIMES 100)	3290.1	0.8	5.1
NIKKEI INDEX)	16,826.5	-1.5	-16.5
0 (TSE COMPOSITE)	4281.2	-0.4	2.7

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.79%	5.79%	4.32%
30-YEAR TREASURY BOND YIELD	7.00%	7.24%	7.61%
S&P 500 DIVIDEND YIELD	2.54%	2.53%	2.98%
S&P 500 PRICE/EARNINGS RATIO	16.2	16.2	19.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	474.6	472.8	Positive
Stocks above 200-day moving average	68.0%	64.0%r	Neutral
Speculative sentiment: Put/call ratio	0.73	0.70	Positive
Insider sentiment: Vickers sell/buy ratio	1.19	1.21	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

ONTH LEADERS	% change 1-month	12-month	Strongest stock in group	% change 1-month	12-month	Price
EBUILDING	21.5	6.3	PULTE	22.8	6.6	26¼
TOGRAPHY/IMAGING	17.6	33.8	EASTMAN KODAK	18.4	34.3	61⅛
ICONDUCTORS	16.0	62.2	NATIONAL SEMICONDUCTOR	31.8	20.4	24⅜
HINE TOOLS	12.1	4.3	CINCINNATI MILACRON	15.0	35.4	27¾
PUTER SYSTEMS	11.5	52.5	SUN MICROSYSTEMS	22.8	94.6	42 13/16

ONTH LAGGARDS	% change 1-month	12-month	Weakest stock in group	% change 1-month	12-month	Price
S	-24.3	-20.3	U.S. HEALTHCARE	-29.9	-23.0	29 7/16
NSPORTATION SERVICES	-9.4	-8.5	PITTSTON SERVICES	-19.7	-6.1	23
L	-9.2	-12.7	NUCOR	-15.9	-22.3	46¼
ALS	-8.7	0.0	INCO	-15.5	-2.1	23⅞
D MINING	-6.8	-3.9	ECHO BAY MINES	-13.7	-20.3	9 1/16

UAL FUNDS

MORNINGSTAR INC

RS

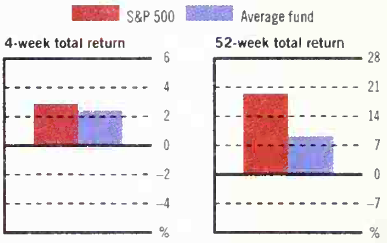
eek total return	%
GAN STANLEY LATIN AMERICAN C	16.3
MASTER EMERGING AMERICAS	14.5
ELITY SELECT ELECTRONICS	13.7

ek total return	%
IGMAN COMMUNICATIONS & INFORM. A	58.1
KINS OPPORTUNITY	47.9
IANCE TECHNOLOGY A	47.5

LAGGARDS

Four-week total return	%
EV MARATHON GREATER INDIA	-8.9
JOHN HANCOCK GLOBAL RX B	-7.3
FIDELITY SELECT MEDICAL DELIVERY	-6.5

52-week total return	%
MONITREND GOLD	-37.2
STEADMAN OCEANOGRAPHIC TECHNOLOGY	-33.8
STEADMAN AMERICAN INDUSTRY	-32.3



ATIVE PORTFOLIOS

ORI/McGRAW-HILL

amounts represent the
t value of $10,000
ed one year ago
h portfolio

ntages indicate
ay total returns

U.S. stocks	Foreign stocks	Treasury bonds	Money market fund	Gold
$12,195	$11,625	$11,618	$10,520	$10,209
+1.69%	+2.22%	+4.80%	+0.18%	-0.12%

on this page are as of market close Wednesday, May 10, 1995, unless otherwise indi-
ndustry groups include S&P 500 companies only; performance and share prices are as of market close May 9. Mutual fund returns are as of May 5. Relative portfolios are valued as of May 9. A more detailed explanation of this page is available on request. r=revised NA=Not available

DON'T BACK DOWN ON JAPAN NOW

No one wants to start a trade war. But in the aftermath of the May 5 breakdown of the trade talks with Japan, the Clinton Administration's vow to impose sanctions on Japanese imports is a sad necessity. The U. S. must continue negotiating, but it must also show that it is serious about free trade—and that means imposing punitive tariffs on Japanese-made goods unless Japan agrees to substantially open its domestic auto and auto-parts markets to U. S. companies.

The key issues are clear. The U. S. auto and auto-parts markets are, for the most part, open to Japanese manufacturers, while the Japanese have made it hard for U. S. auto companies and their suppliers to compete there. For example, U. S. parts cannot be sold in most Japanese repair shops, cutting U. S. companies out of the lucrative aftermarket. As a result of trade barriers such as these, the U. S. is running a $37 billion deficit in auto and auto parts with Japan, almost 60% of the total bilateral trade deficit. Opening up the Japanese car market and requiring Japan to increase its purchases of U. S. auto parts would go a long way toward restoring the U. S. trade balance.

The outcome of this dispute may set the tone for world trade for years to come. There's much more at stake than simply the health of the U. S. auto industry or the size of the trade deficit. Asia's developing countries are intently watching Japan's strategy of closed domestic markets and aggressive exports. If the U. S. backs off now, it will send a signal that this sort of mercantilist behavior is acceptable.

The U. S. sanctions will likely target imported Jap luxury cars and minivans. That may cause some an for U. S. dealers who sell these vehicles. Neverthele pain at home is worth the price. If the tariffs are enough, Japanese exporters will start complaining lou their government. The Japanese bureaucrats who are ing progress in the trade talks are more likely to list Toyota Motor Corp. and Nissan Motor Co. than to Trade Representative Mickey Kantor and Commerce S tary Ronald H. Brown.

In the event of trade sanctions, the Japanese have t ened to bring action against the U. S. at the World Trad ganization. Aside from the fascinating spectacle of the po ing the kettle black, the U. S. shouldn't be worried. The is planning to bring its own case against Japan, whic U.S. has a good chance of winning. A more worrisome, likely, possibility is that Japan will retaliate, either by c off the supply of critical electronic components or by sl down their purchases of U. S. treasury securities, would drive up U.S. interest rates. Either one would t the worst protectionist impulses in Congress, leading to ther escalation of the trade dispute.

Free trade is the critical glue holding the post-cold-wa bal economy together. But it only works if everyone f the same rules. Countries that keep their markets should not expect easy access to the U. S. or anywhere That's a principle worth upholding.

SCALPELS, NOT AXES, WILL FIX MEDICARE

As the Republican Congress begins considering two versions of a fiscal 1996 budget, there will be much talk of "reforming" Medicare. The federal government's health-care plan covers 34 million elderly Americans at a cost of $178 billion this year and growing by 10% a year. The system is enormously expensive and rapidly going broke. But choosing the right approach to solve both problems will require some carefully crafted policy changes and some experimentation, not just wholesale spending cuts.

With Social Security off the table, Medicare is the only place where congressional budget committees seeking to eliminate the deficit by 2002 can find the big bucks. That's because expenses for the health entitlement have been growing faster than any other portion of the budget.

The question is precisely how to cut Medicare spending. The Senate budget proposal ducks the issue by suggesting a bipartisan commission, but the temptation of the budget-cutters will be simply to cut the rates at which hospitals and physicians are reimbursed for the care they provide. This solution, though, has been tried several times in the past and found wanting. The trouble is that hospitals and doctors have to make up for the decrease in fees by charging non-Medicare patients more and by increasing the numb procedures and tests for their Medicare patients. In the the Medicare bill keeps growing, while making health more expensive for everyone else.

Instead, Congress needs to change substantially the the Medicare program is run. That means trying a vari approaches to see which ones work best. In addition t ting Medicare fees, any reform should include significa centives for the elderly to join managed-care netw which should lower costs for the government. Seniors be given vouchers to buy their insurance or health and they could be encouraged to economize by bein lowed to bank the excess. Corporations that provide employees with health insurance should be urged to kee tirees in their managed-care networks, with Medicare pi up part of the tab.

Medicare needs to be fixed, whether Congress passes cut or not. But it won't be easy—and if the Republ simply hack away at the program, the result may be worse than what's there now.

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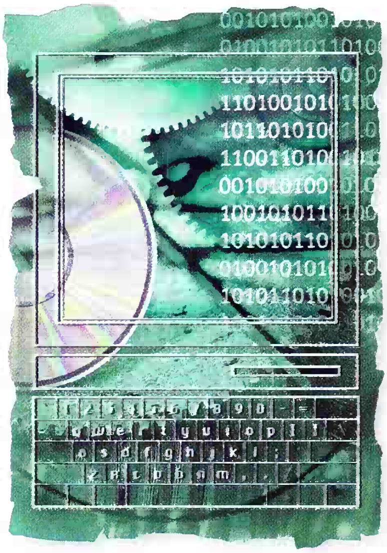

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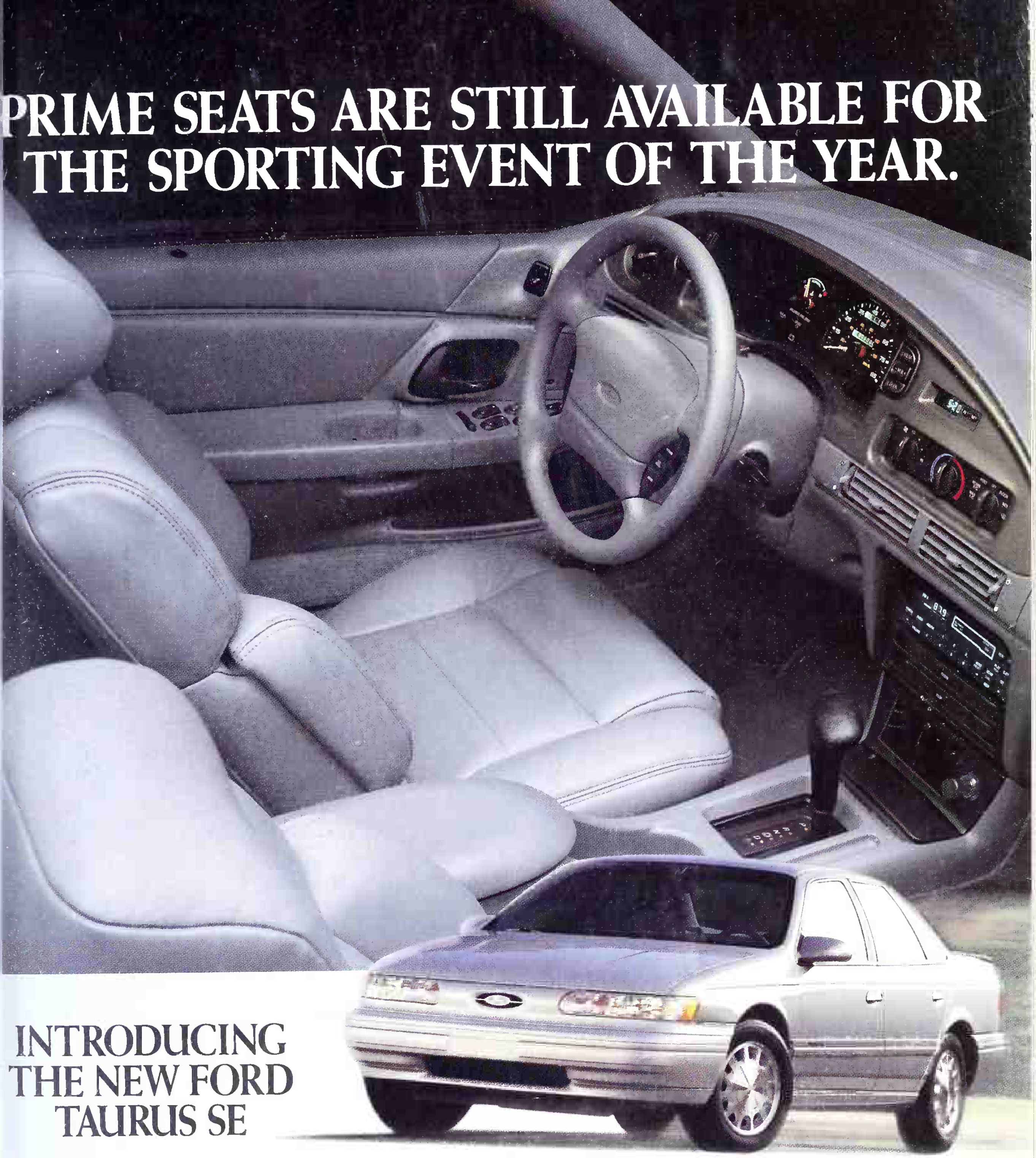
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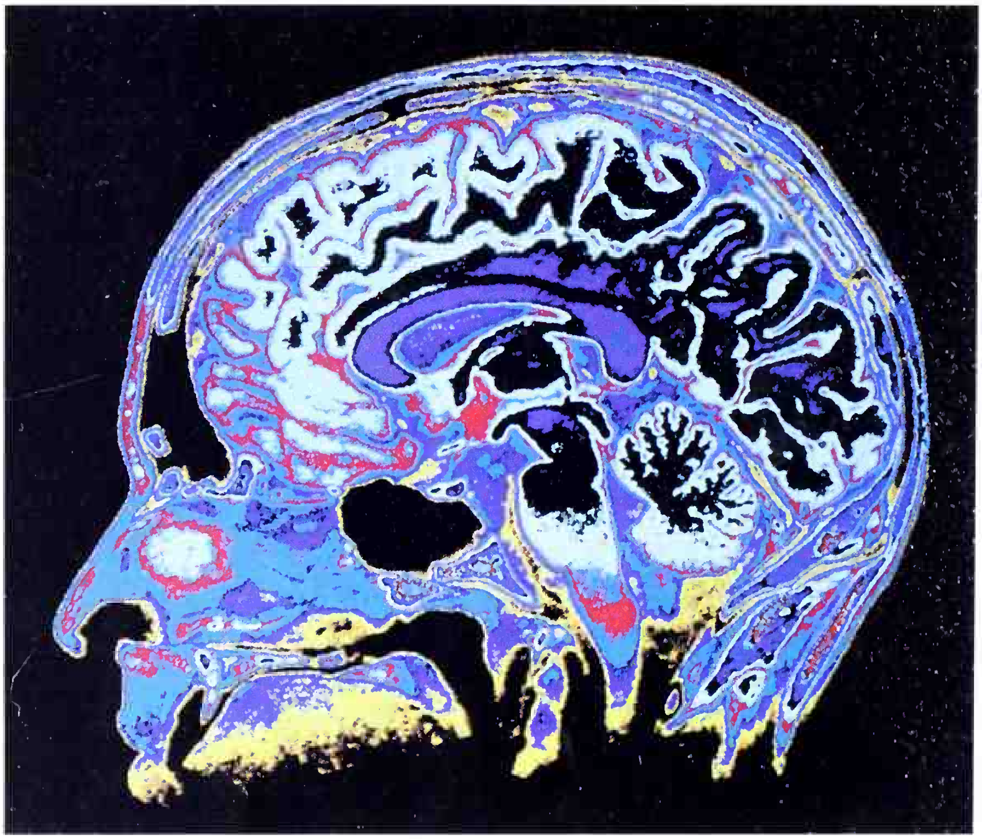

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RDOCH'S GLOBAL STRATEGY / JAPAN'S AUTO SHAKEOUT

BusinessWeek

29, 1995 A PUBLICATION OF THE McGRAW-HILL COMPANIES $2.95

FALL FROM GRACE

J. Peter Grace spent his final months fighting to regain control of his company. Here's the inside story of spying, scandal, shenanigans—and the ongoing battle that threatens to destroy an empire. PAGE 60

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The Mercedes-Benz E 420 Special Edition

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The E-Class Special Edition

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FALL FRO
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The inside
of the brut
war betwee
Peter Grace
and J. P. Bo
for control
W. R. Grace
–and its tra
aftermath
BusinessWeek
MAY 29, 1995

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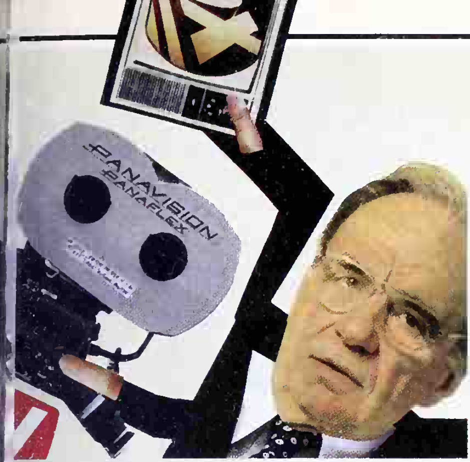

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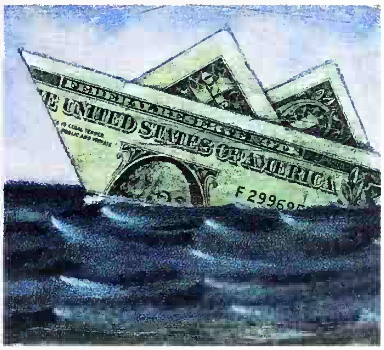

SINKING BUCK

It's not clout that keeps it a key currency

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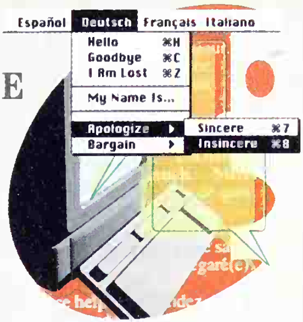

DILEMMA

The heirs of Holocaust victims vs. Swiss bankers page 80

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overnment

ASHINGTON OUTLOOK
or Phil Gramm, it has been a chilly ring in New Hampshire

IE DOLLAR'S DRIFT
ne greenback is still a key currency, ut mainly because of convenience

he Corporation

D LABATT GUZZLE TOO MUCH?
ne Canadian beermaker's bad deal in exico has left the company reeling— d its stockholders fuming

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Ⓔ

Up Front

EDITED BY LINDA HIMELSTEIN, WITH OLUWABUNMI SHABI

REVOLVING DOOR

HELLO, I MUST BE GOING

LIFE AT RETAILER MONTGOMERY Ward isn't any better the second time around. Just ask Ward's former president, Bernard W. Andrews, who on Apr. 18 quietly cleaned out his desk.

ANDREWS: *Third No. 2 to go since '93*

It was the second time Andrews quit. Both times, former execs say, Andrews left because of excessive meddling by Ward's fiery chairman, Bernard F. Brennan. After his first exit in 1990, Andrews joined electronics retailer Circuit City Stores. But after a steady stream of high-level defections, Brennan wooed Andrews back 16 months ago to fix the Chicago-based retailer's faltering apparel business, pledging that he wouldn't interfere again. "It's the same old thing," says a former Ward's exec. "Brennan promises them they'll be able to do their own thing, and then he doesn't let them." Andrews couldn't be reached for comment, and Ward's will say only that Andrews "left for personal reasons."

Andrews is the third No. 2 exec to leave since 1993. His departure comes as Ward's is in the midst of a hard-fought recovery. Its 1994 revenues rose 17%, to $7 billion, while earnings rose 14%, to $117 million. Little is known about Ward's management turmoil, because the company offers lucrative exit packages that are honored only if ex-execs stay mum for a long time. *Susan Chandler*

CRASH TEST

SCANNING FOR SCHEMERS

INSURERS ARE CRACKING DOWN on a pernicious form of fraud—staged car accidents. In this scam, con artists hire folks to cause a collision. The crooks turn a fender-bender into big bucks by inflating medical and legal bills. The schemes cost insurers millions and can cause injury to innocent motorists.

BANG-UP JOB: *Patterns emerge*

Finally, insurers are making a dent in the problem. In the past six months, 400 individuals in 12 states have been charged with filing fraudulent accident claims worth at least $25 million, says the National Insurance Crime Bureau (NICB), a nonprofit funded by insurers. How did they do it? By creating a database of 300 million records from law enforcers and insurers, NICB snoops search to see if the same address, driver's license, doctor, or lawyer appear on suspicious claims. "Common denominators begin to show up," says Glenn Wheeler of State Farm Insurance. "Then, you can start putting the pieces together." Since insurers don't share information directly, they avoid privacy and antitrust issues. *Amey Stone*

TALK SHOW "I think Orange County should be abolished frankly. That county is too good for the people who live ther"

—California State Assembly Speaker Willie Brown on county leaders' sluggishness in devising a bankruptcy-recovery plan

GOLDEN HARVEST

IT'S A-MAIZING: FOLKS CAN'T GET ENOUGH

CORN IS MAKING A COMEBACK—much to the surprise of Wall Street and to the delight of seed and fertilizer companies. Both had figured that last year's abundant harvest would cause farmers to cut back their crops in response to lower prices. Besides, how much corn could the world consume?

As it turns out, plenty. Of last year's colossal 10.1 billion-bushel crop, the feds expect the marketplace to gobble up all but 1.6 billion bushels. And 1996's surplus is forecasted to be even smaller. The high demand for products such as animal feed and corn syrup, coupled with strong exports, has driven corn futures up 26% since November, to $2.66 per bushel as of May 16. Seed fertilizer companies are ishing the boom. "For in tors, this is going to b great place to be," says vid Nelson of NatWest curities, who is bullish on oneer Hi-Bred, DeK Genetics, Potash of Saska ewan, and IMC Global.

Mother Nature has helped Corn Belt suppli A soggy spring dela planting, holding down yi and setting the stage f banner '96. Chicago-based goro will be ready, vows Robert E. Fowler Jr. The tilizer company recently quired a potash mine, panding capacity 60%. If weather holds up, corn fi could be popping up all the place. *Greg Bu*

THE LIST TO SCREAM, PRESS '0'

RINGY-DINGY: *Best pickups*

Who'd have guessed the Social Security folks give better customer service on the phone than Corporate America's role models? Dalbar rated how long it rings, how long you're on hold, and how knowledgeable staffers are. Social Security did best on ring time—four seconds. L. L. Bean took 12 seconds to answer.

Top Providers of Telephone Customer Service

(On a three-point scale)

COMPANY	SCORE
SOCIAL SECURITY ADMIN.	2.38
SOUTHWEST AIRLINES	2.36
NORDSTROM	2.22
L. L. BEAN	2.17
XEROX	2.17
DISNEY	2.14
SATURN	2.11
MUTUAL-FUND COMPANIES	2.10
FEDERAL EXPRESS	2.06
AT&T UNIVERSAL CREDIT	2.05
VARIABLE ANNUITY PROVIDERS	2.04

DATA: DALBAR INC.

CLOCKWISE FROM UPPER LEFT: MICHAEL L. ABRAMSON, RICHARD DUNOFF/THE STOCK MARKET, PHOTOFEST, FRANK FISHER/GAMMA LIAISON

"What I need is
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"Yeah, and make
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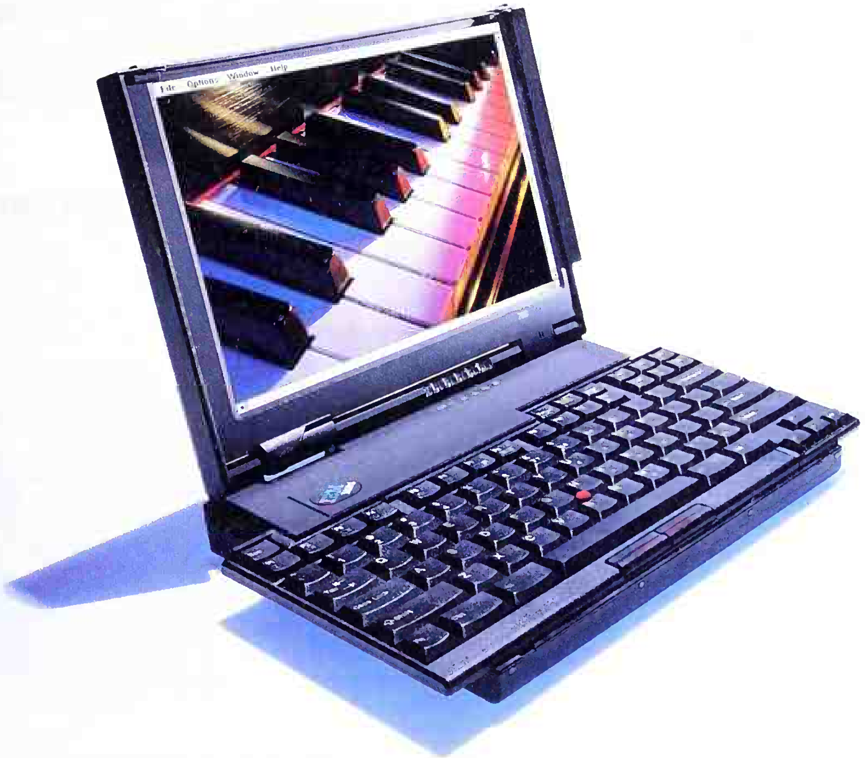
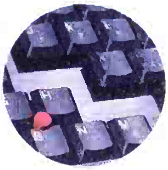
I don't go blind."

"That's all fine, but it
better not weigh me down
like a ball and chain."



IBM Solution # 122248-B  **a.k.a. "ThinkPad[®] 701C"**

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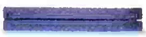

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Up Front

CAR WARS

VOLKSWAGEN IS LEARNING CHINESE

JAPANESE AUTO MAKERS MAY have more to worry about than U.S. trade sanctions. Now, Volkswagen is after some of Japan's most loyal customers: Asian Americans. In a $1 million campaign, the German carmaker is running Chinese-language ads in papers and on TV in the San Francisco area. They aren't like the glamour promos of the U.S. industry, such as the one featuring soap opera queen Susan Lucci fawning over a Ford. Instead, VW's ads accent disk brakes and car frames. Stressing reliability and sturdiness, says VW's Ron Lee, is key to hooking Asian-American customers.

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上或市區行車，

VW AD: *Big bet on a hard sell*

Volkswagen's initial ads, in such publications as *The Sing Tao* and *The China Press*, are aimed at Chinese Americans, the largest and wealthiest group of Asian Americans. A smaller effort courts Vietnamese Americans. But it will be a tough sell. In 1993, 59% of the cars a sampling of Asian-American drivers purchased were Japanese-made, with Toyota the most popular make, according to a survey by Asian Media Sales. By contrast, Japanese autos account for only 29% of the total U.S. market. Still, VW, which sells 97,000 cars in the U.S. annually, says its gamble could pay off big. The Asian-American population is expected to swell to about 11 million by 2000, up from 7 million in 1990. ☐

DIALING FOR DOLLARS

SNITCHING: THAT'S WHERE THE MONEY IS

WILLIAMS: *Someone sang*

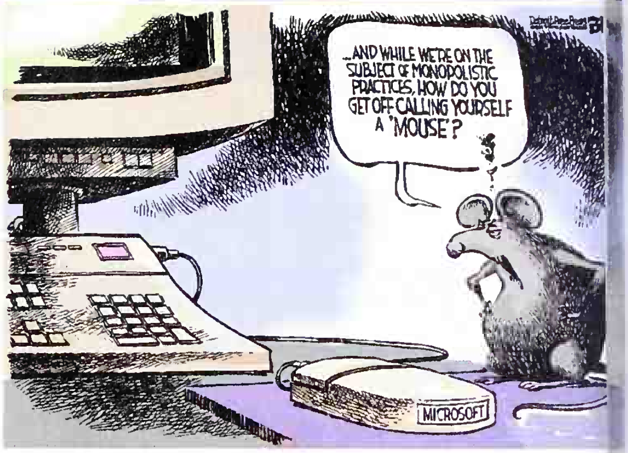
IT TOOK EIGHT YEARS TO SNAG Johnny Madison Williams Jr., a robber who hit 56 banks for close to $900,000. The break came when banks in California, Texas, and Washington State ponied up reward money for tips. Four months after Williams' conviction, an anonymous tipster got $40,000 on May 3 for helping the feds find Williams, a.k.a. "The Shootist." (He liked to shoot up bank ceilings.)

That's quite a payday, since rewards average around $1,000. Even so, bounties and informant phone lines such as "We Tip" are credited with slashing bank heists. In Southern California alone, they plummeted to 1,200 in 1994 from 2,641 in 1992.

At Wells Fargo, rewards have also been used to combat frauds such as bad checks. Program director Lisa Wilhelm says the bank has saved at least $12 million since 1991.

As for Williams, he's behind bars serving a 92-year sentence. *Nanette Byrnes*

DRAWN & QUARTERED


...AND WHILE WE'RE ON THE SUBJECT OF MONOPOLISTIC PRACTICES, HOW DO YOU GET OFF CALLING YOURSELF A 'MOUSE'?
MICROSOFT

ENDANGERED SPECIES

SMOKING: A NOT-SO-DIPLOMATIC IMPASSE

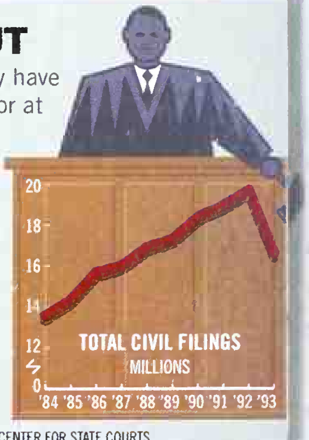
FAR FROM THE TRAVAILS IN Bosnia or Somalia, U.N. Secretary General Boutros Boutros-Ghali faces a pressing matter closer to home: smoking at U.N. headquarters in New York. He will soon review a proposal to snuff out smoking in most of the U.N. The problem is that many delegates and staff don't particularly cotton to people telling them to put out their butts. In the Delegates' Dining Room, for instance, a 1987 circular says "smoking will generally be discouraged." But ashtrays and matches are still on nearly every ta Even an outright ban smoking in small confere rooms isn't always honor

After all, the curity staff isn't powered to ar people who bi the rules. U.N. is also mune from N York City's covering pu places. Ta leaves peer p sure. Says Pe vian diplomat C ton Ibanes, smokes, but not while at U.N.: "So many peo stopped smoking that it become an antisocial hab Boutros-Ghali himself is ing to quit. *Peter C*

THE BIG PICTURE

WORKING IT OUT

The civil litigation boom may have peaked. After a steady rise for at least a decade, a new report shows that the number of cases filed in 1993 dropped to the lowest level in six years. The National Center for State Courts speculates that the drop is due to the increasing use of mediation and arbitration to settle business disputes, as well as to soft business conditions.

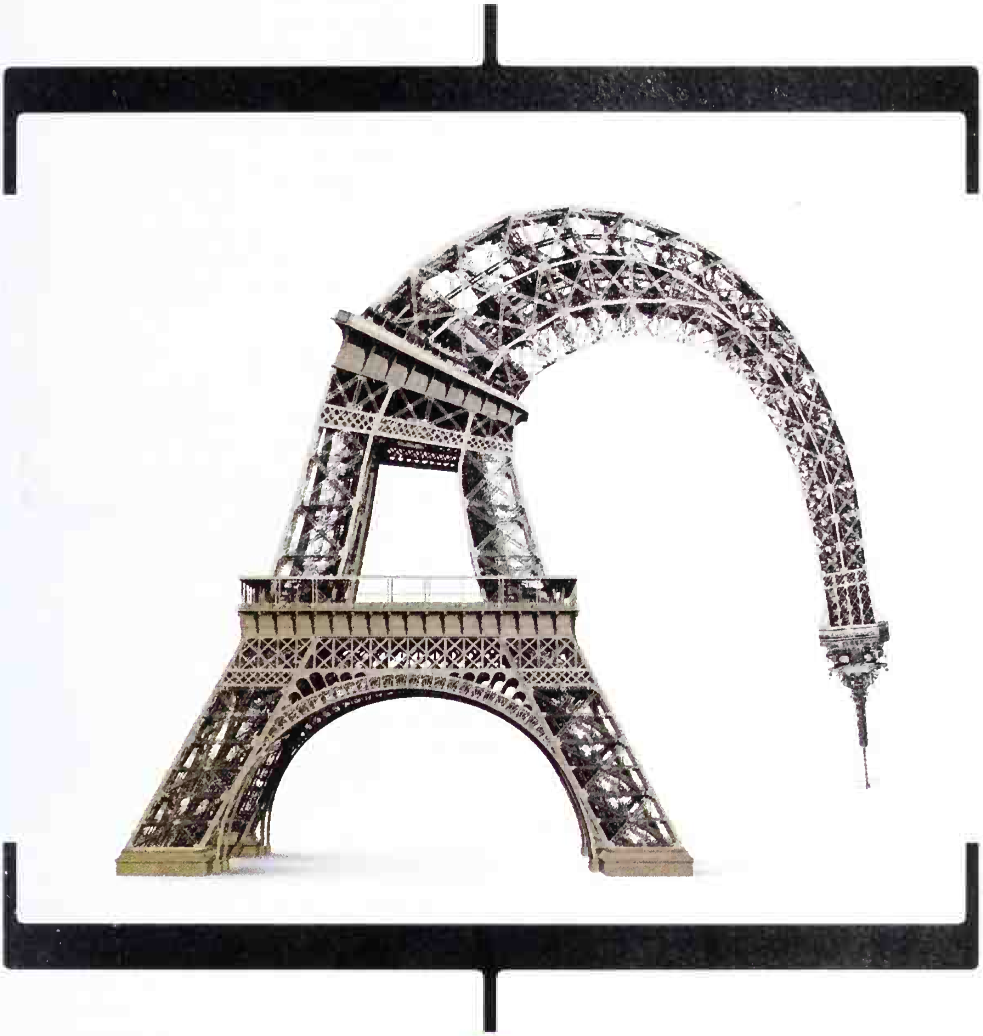


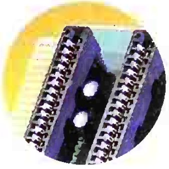
DATA: NATIONAL CENTER FOR STATE COURTS

FOOTNOTES Folks who bought their first mutual fund directly from a fund manager: **32%**; will buy next fund that way: **50%**

CLOCKWISE FROM UPPER RIGHT: CARTOON BY BILL DAY/*DETROIT FREE PRESS*-TRIBUNE MEDIA SERVICES. ILLUSTRATION BY JAMES GARY. GRAPHIC BY ALAN BASEDEN. PHOTOGRAPH BY AP/WIDE WORLD

"The last thing I need is a computer that can't adapt itself to the future."





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Readers Report

GENES: WHO MADE PROFITS THE PRIME CONSIDERATION?

Your article "The gene kings" (Cover story, May 8) is a typical mischaracterization and misunderstanding of how scientific research functions in the U.S. The two scientists that you espouse to be "kings" have no clothes, and their "achievements" come from the labor of thousands of dedicated scientists across the world who have built this technology that they are trying to exploit in a get-rich-quick scheme.

Your article does point out a rather unfortunate direction in the research community—a focus on profit over making a positive contribution. One thing is certain: The lawyers for these parties will get very rich.

Douglas Coffin
Great Falls, Mont.

Reading your article reinforced our commitment to examine the ethical issues that result from gene research and therapy. In addition to the legal ethics related to patenting gene sequences, a central issue surrounding gene therapy is how this technology affects patient populations. These ethical issues include the availability of gene testing to low-income patient populations, and discrimination by employers and health- and life-insurance companies toward people carrying a cancer or disease gene.

As medical technology progresses, the ethical application of these advances needs to be discussed.

Dr. Norman T. Mendel
City of Hope National
Medical Center
Duarte, Calif.

MISCAST

"The two scientists yo espouse to be 'kings' have no clothes, and their 'achievements' come from the labor o thousands of dedicate scientists..."

MAINSTREAM LIBERAL MEDIA: 'BLIND TO THEIR OWN BIAS'

Regarding "Who speaks for America?" (Media, May 8), surely a nonpartisan observer would judge that *The Washington Post* is at least as libera
The Washington Times is conserva
and *The New York Times* editorial p
is at least as liberal as *The Wall St*
Journal editorial page is conservat
Yet the conservative journals are
ferred to as the "right-wing *Washing*
Times" and the "polemical right-w
Wall Street Journal editorial page"
the liberal journals referred to as "
fessionally run, objective sources"
"impartial and authoritative" but n
the "left-wing or liberal" anything.
mainstream liberal media, including
author, are so immersed in their lib
world they are blind to their own b

Peyton Ganna
Saratoga,

In your essay, it is stated that "
spite endless griping to the contr
there is little hard evidence that
traditional media] truly do exhibit a
eral' bias." I find this assertion im
sible to accept. Network news co
age and papers such as *The Washing*
Post (to which I subscribe) consiste
reveal their political preferences thro
the stories that they cover or don't
er, the terminology that is used,
the statements of opinion that are
sented on front-page stories as if t
were facts.

Radio talk shows are more con
vative than the mainstream media
cause journalists no longer preser
balanced point of view. If they did,
unlikely that Rush Limbaugh and ot
would have as wide an audience as t
enjoy today. Worst of all, however,
magazines such as BUSINESS WEEK

Business Week

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hen was the last time the British were this excited about anything?

uch festivity is understandable.

Not merely because the 1995 Range over 4.0 SE is the first entirely new ange Rover in 25 years. But also because ere's never been a vehicle like it.

Off-road, its new 4.0-liter V8 engine, ong with second-generation electronic action control and all-terrain ABS, akes it easier than ever to gracefully nquer minor obstacles.

Like Guatemala.

And on-road, the new Range Rover not only puts other 4x4's to shame, it also out-amenities other luxury cars.

The fact is, from dual airbags to the Range Rover's unique electronic air suspension, we rethought, redesigned, and upgraded virtually 100% of every system, and every last feature and function in the Range Rover, to create the Range Rover 4.0 SE.

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To understand why many people already consider this reasonable for a vehicle so exceptional, we urge you to call 1-800-FINE 4WD for a dealer near you.

After all, we may not come out with another new Range Rover until 2020.

RANGE ROVER

Always use your seatbelts. SRS/airbags alone do not provide sufficient protection.

deny that the liberal bias in the media exists.

The popularity of radio talk shows will remain high, and the credibility of the mainstream media continue to erode, until the mainstream media move their opinions off the front page and onto the editorial page where they belong.

Bradford V. Frisby
Arlington, Va.

WHY HEALTH CARE ISN'T FEELING SO HOT

The article "Sudden illness" (News: Analysis & Commentary, May 8) should serve as a wake-up call to all who espouse Health Maintenance Organizations and managed-care organizations as the ultimate solution for health care in this country.

While no one disputes the impact of HMOs and managed-care organizations on health-care costs, market forces and controls imposed by the government cannot work forever to their advantage. Presently, bureaucratic remedies (public and/or private) and arm-twisting tactics are forcing hospitals and health-care providers to accept bargain-basement rates resulting in huge profits for these organizations and in some savings for businesses. The 1% to 2% cost savings enjoyed by businesses, and the profits accumulated by these organizations to the tune of several billion dollars per year, are not sustainable in future years.

Streamlining health care in this country will take more than slogans and cheers. Rational debate rather than legislative fiat should prevail if real reform is contemplated.

Dr. Istrati Kupeli
Wellesley Hills, Mass.

WHAT DOES THE EEOC NEED? TEETH

As its past director of investigations, I read with interest your article "The EEOC: Too swamped to shoot straight" (Social Issues, May 1). I don't think it has ever been a question of shooting straight but rather of having the wrong weapons, not enough ammunition, and too few soldiers.

The Equal Employment Opportunity Commission was originally funded by Congress to handle 2,000 cases a year. When the EEOC opened its doors, there were 8,000 cases waiting, and the complaints haven't stopped since. It never has had enough money, and it never has had enough staff. Staff costs already consume 85% of its budget, its investigators are carrying workloads of up to 150 cases each, and productivity is high. So, there's not much room for improvement there.

CORRECTIONS & CLARIFICATIONS

"Mr. Bush heads for Hanoi" (Up Front, Apr. 10) incorrectly said the last U.S. President to go to Vietnam was Lyndon Johnson in 1966. Richard Nixon paid a five-hour visit there on July 30, 1969.

A chart in "Silicon Valley's other power elite" (Legal Affairs, May 8) about the investments of law firm Wilson, Sonsini, Goodrich & Rosati misstated the percentage of its portfolio committed to the life-sciences industry. It is 25%, not 30%.

In passing Title VII, Congress set up a complaint process for the EEOC to use but didn't give the EEOC any enforcement teeth where investigation of a complaint showed there was discrimination. A complaint process is extremely inefficient because the agency investigates discrimination based on who files a complaint rather than concentrating resources on employers and unions where there is evidence of discrimination.

To reinvent the EEOC, politicians would have to permit it to investigate without the need for a complaint. They would have to give it the authority to direct employers and unions to take corrective action rather than having to go to court each time an investigation shows the law is being violated. And they would have to adequately fund the agency to deal with its caseload.

John Rayburn
Silver Spring, Md.

HOT B-SCHOOLS HAVE COLD SHOULDERS

Your article "MBA madness is back" (News: Analysis & Commentary, May 8) certainly hit home. I applied to four of the top five BUSINESS WEEK-ranked B-schools and have received the standard rejection form-letter from three thus far. (I expect my fourth thin envelope any day now.) Stanford University Dean A. Michael Spence may claim to be comforting candidates, but I found no consolation in my "Dear Mr. Chow" letter that wasn't even signed by him.

I would expect that two years of senior management experience for a multinational company in China, consulting for the World Bank and foreign governments, founding a nonprofit organization at age 15 to raise $90,000 in six weeks, small-business expertise, multiple board-of-director experiences, and a 95-percentile Graduate Management Admission Test score would count for something. Guess not!

After spending hundreds of h
on the applications, I guess I'll
have to settle for a BUSINESS W
second-tier school.

Teh-Han P. C
California State Univer
Northridge, C

TRADE PACTS: LET'S NOT BE REGIONAL ABOUT THIS

Regarding the question raised by
May 8 editorial, "A U.S.-Europe t
pact? Why not?" I'll tell you why n

Instead of a trade pact pressu
protectionist Asians to pursue free-t
principles (your ardent hope), it c
well intensify inward-looking regiona
in Asia and elsewhere. Having re
nized the costly divisiveness of econ
ic nationalism, we should not be
turing the costly divisiveness
economic regionalism.

David J. Stein
Alexandria,

WRONG FOCUS AT LOTUS

In "Can Jim Manzi get out of
Lotus position?" (News: Analysis
Commentary, May 8), I believe thi
another case of a consultant that c
to dinner and would not go home.
ting costs and firing people is good
certain extent. But eventually you n
concentrate on product developm
marketing, and building your people
sets. Lotus has failed to do so.

Notes could have been a huge
cess. I hate to agree with Bill Ga
but CEO Manzi dropped the ball on A
Pro, Lotus for the Macintosh, and fi
ly, the cash cow Lotus for IBM.

Willie K
Hous

HOW TO REACH BUSINESS WEEK

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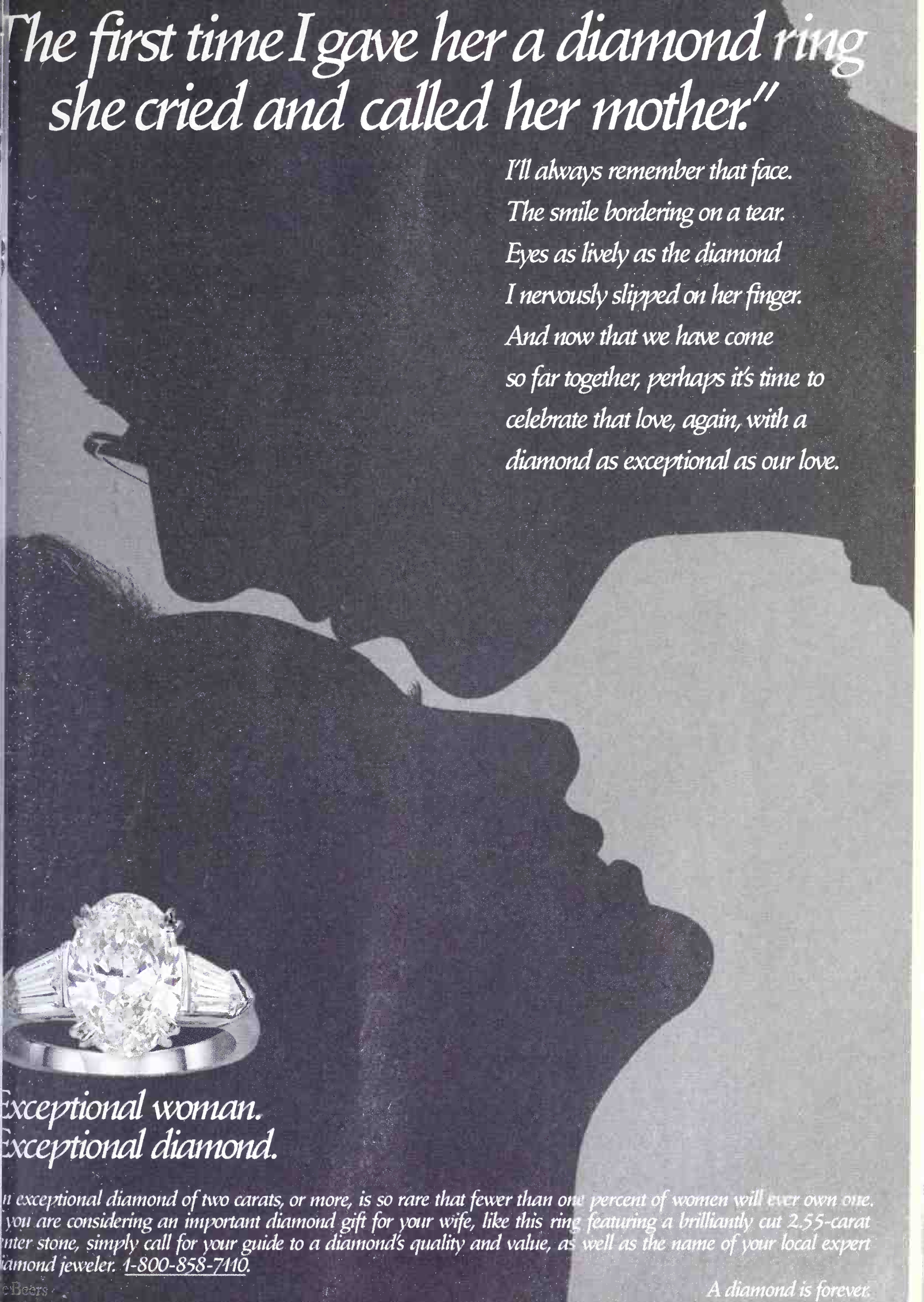

"The first time I gave her a diamond ring she cried and called her mother."

I'll always remember that face.
The smile bordering on a tear.
Eyes as lively as the diamond
I nervously slipped on her finger.
And now that we have come
so far together, perhaps it's time to
celebrate that love, again, with a
diamond as exceptional as our love.

Exceptional woman.
Exceptional diamond.

n exceptional diamond of two carats, or more, is so rare that fewer than one percent of women will ever own one. you are considering an important diamond gift for your wife, like this ring featuring a brilliantly cut 2.55-carat nter stone, simply call for your guide to a diamond's quality and value, as well as the name of your local expert iamond jeweler. 1-800-858-7110.

eBeers

A diamond is forever.

“OUCH!”

“Sacrebleu!”

“BLOODY HELL!”

“痛い!”

{*We can help people no matter which language they’re injured in.*}

Unum Life Insurance Company of America
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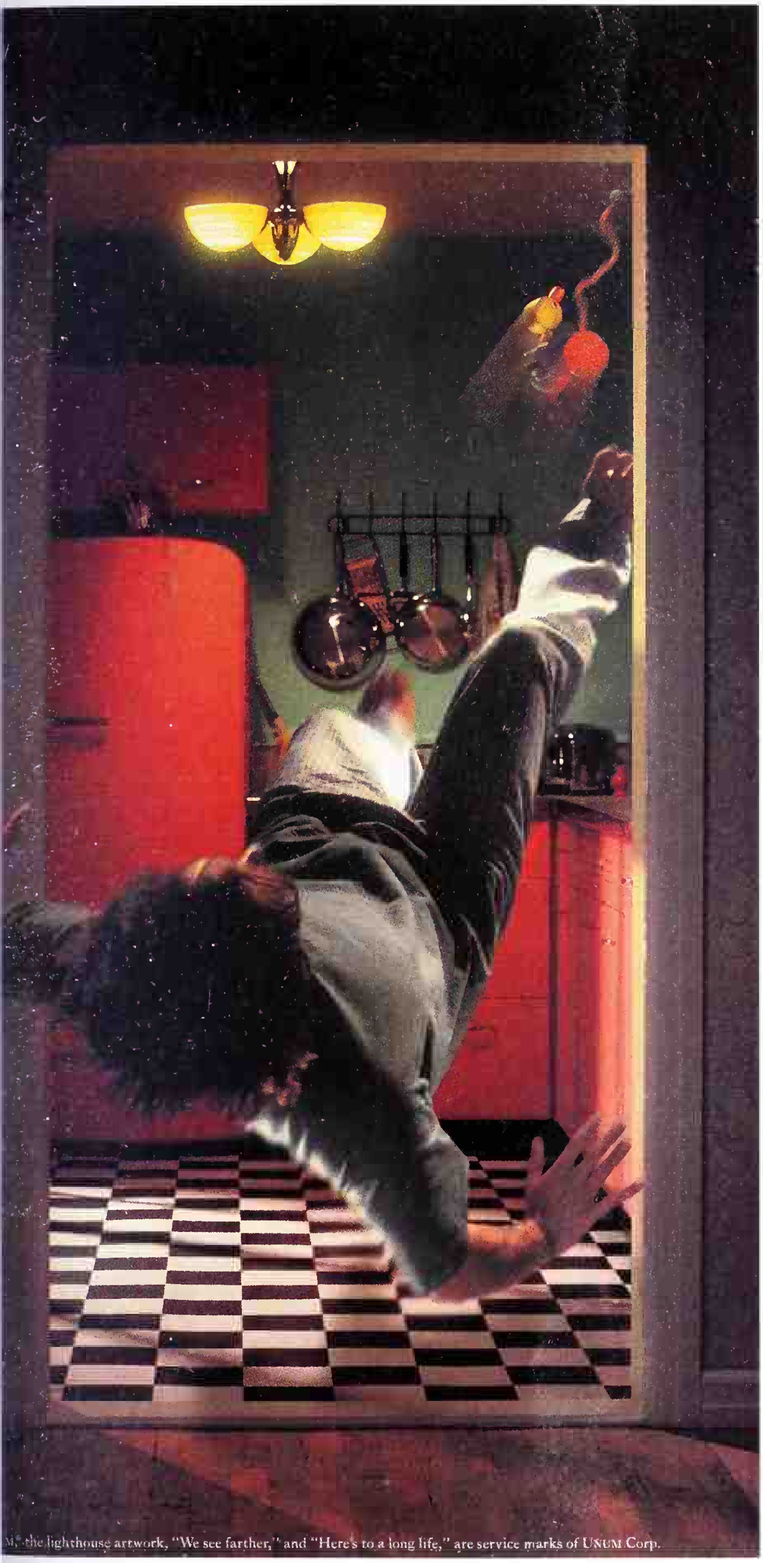
Colonial Life & Accident Insurance Company
Columbia, SC (All states except NY)

Unum Limited (U
Dorking, England



M, the lighthouse artwork, "We see farther," and "Here's to a long life," are service marks of UNUM Corp.

While it may be true that every country has a unique set of customs and traditions, the act of stubbing your toe, or bumping your head, is pretty much a universal experience. In other words, anyone, in any part of the world, can have an unexpected mishap.

For that very reason, UNUM *now offers disability insurance on three continents, helping protect people around the globe from the physical and financial pitfalls that can result from injury or illness. In addition to being the disability insurance leader in the U.S. and the U.K., we have a strong and growing presence in Canada. And recently, thanks to both our financial stability and our performance, we were honored to become the first insurance company to develop long term disability coverage in Japan.*

It's no surprise, really. On both sides of the world, people want to know that in a time of need they'll be taken care of. And that's exactly the language we speak. For more information on the UNUM *family of companies, just call your insurance broker.*

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HEADY BOUQUETS—AND A SHARP HEADACHE

LINE 'EM UP

The author contemplates a selection of reds at the Vinitaly competition, a showcase for premium winemakers

It's 9 a.m., and I'm on my, let's see now, fourth bottle of Chianti. I'm not a lush (yet), nor am I trying to relieve the stress of working for BUSINESS WEEK's Rome bureau. I'm taking part in one of Europe's toughest wine competitions: Vinitaly, a three-day affair in which almost 1,000 wines will be sampled in a splendid 16th century villa in Verona.

Unlike the other 60 members of the international jury—mostly distinguished wine writers and cellar masters from as far away as New Zealand—I am no oenophile. My appreciation of the grape is of the instinctive, tastes-O.K.-to-me school. But the powers that be at Italy's Foreign Trade Institute apparently viewed my potential readership as credentials enough. When they asked me to sit on a panel of wine experts, I just couldn't refuse.

So here I am, marinating in some of Italy's finest wines: Barolos, Barbarescos, Brunellos. They are becoming a must in fancy restaurants from New York to the Seychelles. Thanks to giant leaps in quality throughout the 1980s, upmarket Italian wines—those that retail at $20 or more—are gaining on their more prestigious French cousins. In the process, a big market is developing for the more affordable midlevel brands.

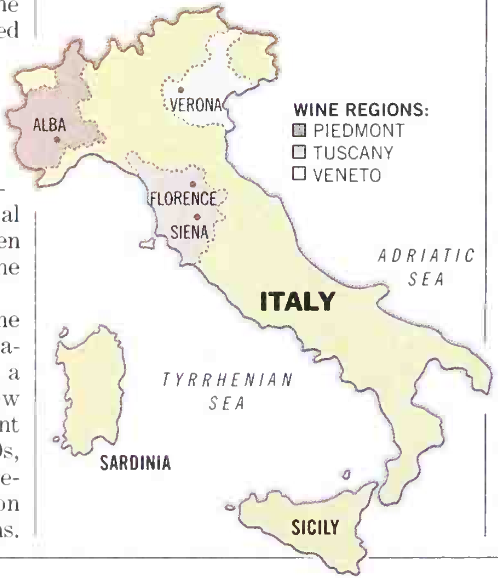
In fact, the whole point of this somewhat pompous competition and the gigantic wine fair that follows is to lend luster to lesser-known quality wines and dispel any lingering stereotypes of Italian wine as cheap plonk. Says Pablo Harri, marketing director at U.S.-owned Banfi Vintners in Montalcino, winners of the competition for the second straight year: "We're fighting a distorted image of Italian wine as low-brow, ordinary table wine."

Victory may be at hand. Because of their surging popularity, "some 'Super Tuscans,' such as a 1990 Sassicaia, are almost impossible to find in New York wine stores," says Edward V. McCarthy of New York-based *Wine Enthusiast*. In addition to such premium wines, even some lesser Italian stars are getting scarce on shelves and racks, despite the fact that 45% of America's wine imports are from Italy.

But running out of wine is the least of my problems. A battalion of sommeliers, with what look like oversize tea strainers dangling around their necks, march into the room carrying dozens of anonymous, hooded bottles. I sniff, slurp, and swallow. At first I can't bring myself to expectorate the wine—maybe because my mother always told me ladies don't spit. Anyway, this sample doesn't convince me. It smells like soap.

If the Italian vintners don't do better impressing the real experts here, their industry—the world's largest—could suffer. The Italians' move upmarket is aimed at keeping ahead of a flood of cheap wines from South Africa, Chile, and Australia. Companies that bottle cheap and cheerful Lambrusco, such as Cantine Cooperative Riunite in Reggio-Emilia, are having to upgrade their product or risk having sales evaporate. So they are making big investments in wooden casks, innovative vinification methods, and experimentation. Already, upmarket wines account for 17% of total Italian wine production, compared with only 10% in 1985, according to the Milan-based producer group Wine Union.

SOGGY NORWEGIAN. But defending the honor of good *vino* isn't enough. Italian wine houses are also having to rethink their marketing strategies to meet growing overseas demand while domestic sales languish: Wine consumption in Italy fell from 120 liters per capita per year in 1985 to 50 liters today as health concerns prompt Europeans, particularly the younger ones, to drink less wine—but wine of a higher quality. Florentine winemaker Marchesi de



PHOTOGRAPH BY ELISABETH GARVEY; MAP BY ALBERTO MENA/BW

The expansion plans called for two more. Word has it, they had problems structuring the financing.

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Erv Barnes (left),
Director of Information
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Ed Herrelko (right),
Executive Vice President
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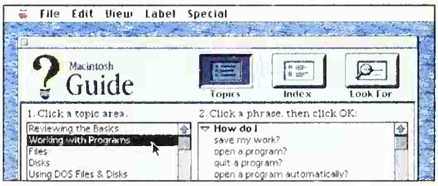
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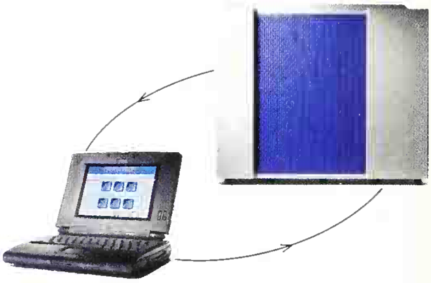

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Letter From Italy

Frescobaldi has just launched a light, Chianti-style Sangiovese wine that's tailor-made for the U.S. market. And Zonin, a major producer in the northeastern Veneto region, is forging joint ventures to export wine to India and China that could boost its $60 million annual revenues.

Perhaps I should stay away from figures, though. As the sommelier fills up my 51st glass, I gulp down a spicy red number that's simply too good to spit out. I later regret this intemperance as I begin to have problems adding up the points on my form and get told off for getting the arithmetic wrong. I'm also getting deadly glances from my Norwegian neighbor, who occasionally gets sprayed by my attempts at spewing the wine into a bucket. Apparently, I haven't mastered the tongue work needed to spout the wine like a fountain.

BOTTOMLESS CELLAR: *Sommeliers brandishing hooded bottles*

ELISABETH GARVEY

Soon, I'm slinging back the wine at full force, and my senses are buzzing with the taste of everything from exotic flowers to mouthwash. As my first day on the job draws to a close, I adjourn—for a drink with the lads in a local *taverna*.

LINGERING TASTE. At dinner that evening, we are only allowed watered-down house wine in glass jugs. No sponsors must taint our exemplary impartiality. The Irish oenophiles at my table guess that it's a local Valpolicella, a popular, light red wine. After the 10th carafe, the wine has us musing over the virtues of plastic bottle tops—over 6% of wines are ruined by bad corks—and why the top Miss World contenders invariably include one from Venezuela.

In the morning, it's back to the grindstone at the villa. The first wines of the session mingle with the lingering taste of espresso. I inhale the oak-scented fumes of a red potion and hold up my glass to the light. The room's frescoed walls and beamed ceiling are reflected in the halo of wine circling the glass. As I let the wine slip down my throat, I feel the aura of four centuries of the villa's history. But the sensation fades. As the day wears on, from my strategic back-row table, I can chart bald spots turning a darker shade of purple.

DARK DEED. By the third day, I feel more at ease with all the ritual. I even swirl and sniff the mineral water in my glass at lunchtime. Surprisingly, there is very little winespeak going on apart from the odd, otherworldly snippet: "Did you capture the subtle hints of vanilla and soft seductive character of Sample 201?" Mostly, the oenophiles and the sommeliers prefer to talk about sex—which is all very amusing until they attempt turning words into deeds.

Peeling away from the competition in the afternoon to join a tour of the Bertani Estate—a prestigious winery up in the hills outside town—I wind up on a merry canteen crawl with a group of local wine fiends. After hitting a 1928 Amarone in the dark cellars of the villa, I am grabbed by the arm and slurped on the cheek by a mustached reveler.

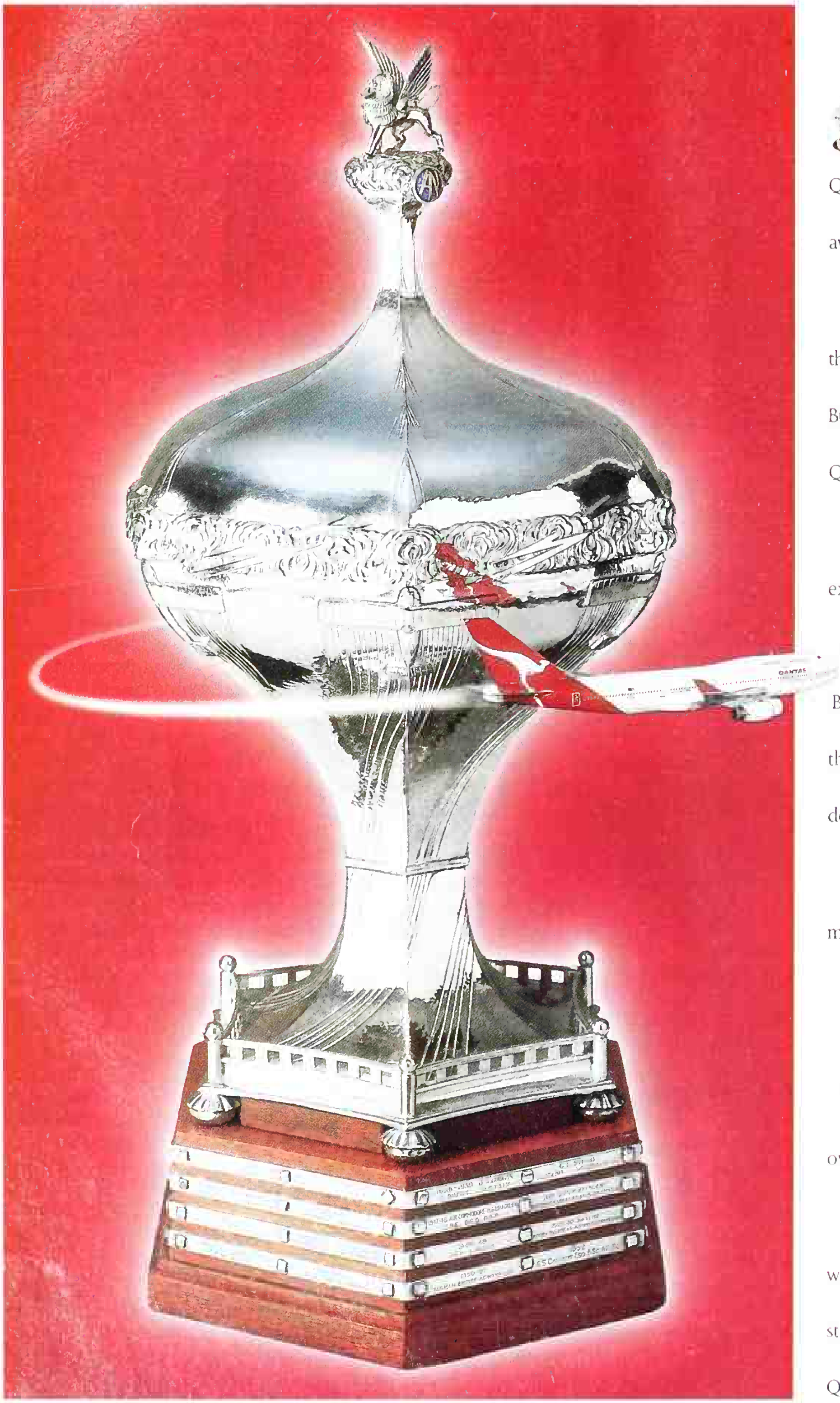
Suffice it to say, all that is history now. Back in Rome, I'm fighting my way through traffic jams to reach the office with a throbbing hangover. Getting down to work is like moving mountains. Vague memories of drunken predators, bulbous red noses, and biblical floods of wine swirl in my head. Subtle hints of vanilla indeed.

SILVIA SANSONI

Sansoni is editorial assistant at BUSINESS WEEK's Rome bureau.

By day three, I even swirl and sniff my lunchtime mineral water

No other airline has landed this twice.



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STEPHEN H. WILDSTROM

VHAT WINDOWS 95 EFT OUT

f the cosmetics business
is selling hope in a bottle, it's safe to say the
ware business is selling
ams on a disk. A year
, when Microsoft Corp.
ted letting out details
ut its upcoming version
Vindows, the dream was
the new operating sys-
would replace much of
software on your com-
er. The new Windows
ıld take over file manage-
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eality has set in as Mi-
oft puts the final touches
Windows 95, which is set
o on sale in late August.
test version of Windows
hat I am running is solid,
it marks a huge improve-
ıt in usability over Win-
s 3.1.

CKER SHOCK. But some
the add-ons that make
ıputing more convenient
reliable have fallen by
wayside. Others have
ed to a "plus pack" that
add $50 to the near-$100
of the main program,
some of the remaining
lets aren't very good. As
sult, Win95 users, like car
ers, will have to pay ex-
for some of the added
ures they want. And at least a small slice of the $7.4 billion U.S. software industry will be able to thrive in the gaps left by mighty Microsoft.

Take, for example, disk-compression software, which allows you to double the amount of data you can pack onto your hard disk. Windows 95, like recent versions of MS-DOS, contains a compression program called DriveSpace. But the Win95 edition provides lousy compression on drives bigger than about 300 megabytes.

The reason, Microsoft developers maintain, is their commitment to allowing the new Windows to run on the millions of existing machines with 386 microprocessors, which are two generations behind today's Pentium chips. State-of-the-art compression software slows these machines to a crawl, so Microsoft dumbed down the program. If you have a 486 or Pentium computer, and want the good stuff, you'll have to buy the plus pack or one of the non-Microsoft products that are sure to sprout.

Microsoft also scrapped plans for a component that would allow you to run your PC from another computer—say, a laptop—via phone lines. Instead, you'll need non-Microsoft software for remote access (BW—May 8). And Schedule+, a time-planning program which was bundled in the last version of Windows 3.1, will become part of Microsoft Office instead.

Unless you have a taste for living dangerously, you'll want to buy programs to keep an eye on your system, warn you of impending problems, and help you recover from a disk crash, loss of setup information, or other catastrophe. When you install Win95, it offers to create an emergency startup disk, but I was not able to figure out what to do after booting up from the emergency disk. Symantec Corp.'s Norton Utilities for Windows 95, now available in a $30 "preview" to Win95 testers, makes the process a whole lot easier.

There are some good features in the Windows 95 package. I found the backup software, which allows you to archive files to floppies or tape, easy to set up and use. And HyperTerminal, licensed from Hilgraeve Inc., may be the only general-purpose telecommunications software that you will need to call bulletin boards.

Getting the extra software necessary to run Windows 95 safely and conveniently at least doubles the initial cost of the operating system—especially since most of the Windows 3.1 versions you may be running won't work unless upgraded. But in the end, consumers may well be thankful that Microsoft couldn't quite chew all it bit off. Even if the software left out of Win95 is only a small slice of the business, innovators will find opportunities—and healthy competition in software benefits us all.

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When the OfficeJet combination fax machine and printer came out last year, I criticized Hewlett-Packard Co. for leaving out two things: the ability to fax documents without printing them out first and a way to scan printed material into your computer (BW—Nov. 7). The new OfficeJet LX fixes these shortcomings. And it adds the extra functions without complicating the setup process. The LX has a street price of around $800, about $100 more than the original OfficeJet, which remains on the market. Owners of older OfficeJets can buy an LX upgrade kit directly from HP for $119 (800 772-4329).

SOFTWARE

ONLINE DEBRIS

Some programs, like children, should learn to clean up after themselves. The worst offenders are programs downloaded from online services. For example, America Online subscribers can download a new "preview" version of AOL Windows software that gives you access to the World Wide Web through a nifty browser. But when the program finishes installing itself, it leaves behind a nearly 2-megabyte file called 25instal.exe that has no further use. A better-designed installation routine would at least inform you that the file could be erased safely.

ILLUSTRATION BY JAMES YANG

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

STARTUP
A Silicon Valley Adventure
By Jerry Kaplan
Houghton Mifflin • 322pp • $22.95

A $75 MILLION 'JOYRIDE TO HELL'

When Jerry Kaplan launched computer-software startup GO Corp., he chose the ant as the company mascot. He set up an ant farm near the company kitchen and told his troops the insects captured the right attitude—they were egoless, cooperative, diligent, and, he added, "excellent engineers." Meanwhile, he confided in his top lieutenants that whether GO was a huge success or a huge failure, it would be a "hell of a joyride." Weeks later, the ants were dead, and one of those lieutenants had a new prediction: It could be a "joyride to hell."

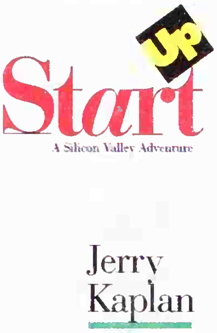
Thus begins *Startup*, the story of GO, one of Silicon Valley's hottest outfits gone dead cold. GO was launched in 1987 by Kaplan, then a 35-year-old techno-visionary who could see a day when people would use personal computers like notebooks—scribbling on the screens and having the writing instantly turned into computer text. One key snag: The technology, including translating the quirks of individual handwriting, was not up to the task at an affordable price. Six years later, GO—along with hundreds of jobs and $75 million—had evaporated.

What it left behind is grist for Kaplan, who gives a delectable account of what it's like to try to spin a dream into Silicon Valley gold. Few succeed—the odds are 10 to 1 against. But that fact only makes Kaplan's firsthand glimpse i
one of computerdom's big failures
the more intriguing.

That said, his story is anything bu
case study of the dos and don'ts
startups. Kaplan doesn't preach; he p
es no blame and doles out no lesso
Instead, *Startup* is, in Kaplan's word
"factual novel" that whisks the rea
along as a passenger on his "joyride

During the trip, we encounter c
puter titans Bill Gates, John Scul
and Andrew Grove—all of whom wa
piece of the action. We tag along
Kaplan plays "Dialing for Dollars"
near-constant quest to keep the star
afloat that eventually takes him to de
pocketed partners: IBM, whose bure
cracy weighs GO down l
"rocks in your backpac
and AT&T, whose strategiz
flip-flop more than a sea b
out of water. But what
book really offers is the
vor of the wacky, ruthl
politics in an industry t
plays by few rules.

Kaplan learned that at
get-go. He first cooked
the idea of pen comput
during a 1987 conversat



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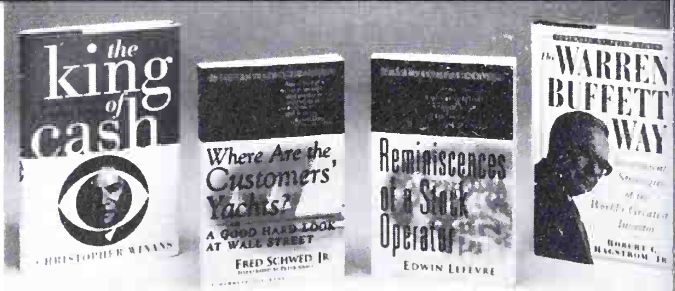

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BW5

THE McGRAW-HILL BOOKSTORE—INFORMATION FOR TODAY'S PROFESSIONAL

Mitchell Kapor, founder of Lotus elopment Corp., where Kaplan had working as a consultant. The two nbled a small team that included e Sakoman of Apple Computer Inc. ull over the idea. At first, it aped everyone was hot to trot. But Sakoman broached the idea of ng Apple, word reached Sculley, pany chairman, who enticed Sakoto stay by setting him up with a ar project of his own. GO had a rival e it even incorporated.

koman left Apple a few years later ay. But his project went on to be the "Great White Hope at Ap- -the Newton," says Kaplan. While Newton is one of the few pen-based es that has reached the market, it ailed to become a commercial hit. the Apple product dogged GO. At point, Kaplan says, Sculley considdropping Apple's software and us-O's Penpoint operating system. But Newton team threatened revolt, and dea was forgotten.

ars later, just as Penpoint was y for market, key partner AT&T y swapped it for Newton technolo part of a possible AT&T-Apple joint ire. But when AT&T's Robert Kav failed to win support among his enants, he stuck with Penpoint.

also had run-ins with Microsoft Corp. In the early days, GO invited hyper-aggressive Microsoft CEO Bill Gates to look over its concept in hopes that Microsoft would write software for Penpoint. Gates expressed interest—but also pointed out he had previously thought of a pen-computer himself. Still, he sent one of his engineers to get a closer look. "All they did," complained Robert Carr, GO's research and development chief, "was beat me up about why we should be using Windows. They insinuated that if we didn't, they might do this themselves." Sure enough, GO wouldn't switch to Windows, and Microsoft started a competing project, Pen Windows—which, incidentally, still has not appeared on the market. Fumed Carr: "They ripped off our stuff!"

Kaplan sifts the ashes of his software startup to spin a good yarn, not to teach a lesson

Did they? While this tale is timely, given Microsoft's fight with a federal judge over its business practices, Kaplan never says Microsoft broke the law. He instead takes us along to the Federal Trade Commission, which called GO for information regarding its inquiry into Microsoft. There, Kaplan tells his story to eager investigators. Afterward, according to Kaplan, an FTC staff economist told him: "This looks like a textbook case of abuse of monopoly power." But in the end, Kaplan says, the FTC decided the GO material was immaterial to its investigation.

If all this sounds like living on the edge, it is. GO's final days were full of more twists than a Hollywood whodunit. GO spun out its hardware into a separate company, EO, in which AT&T took a stake. As funding began to run dry for GO, it merged itself back into EO—and Kaplan and other execs resigned. Just two weeks after the merger was completed, an AT&T exec recommended closing EO entirely. EO fought back, laying off staff and convincing AT&T to hold on. For a short while, there was hope. But on July 29, 1994, about six months after the merger, AT&T pulled the plug.

Did all this sour Kaplan? Not at all. He has launched a new Silicon Valley startup, ONSALE, an electronic shopping service that debuts on the Internet May 29. It's joyride time again.

BY KATHY REBELLO

Rebello covers Silicon Valley for BUSINESS WEEK.

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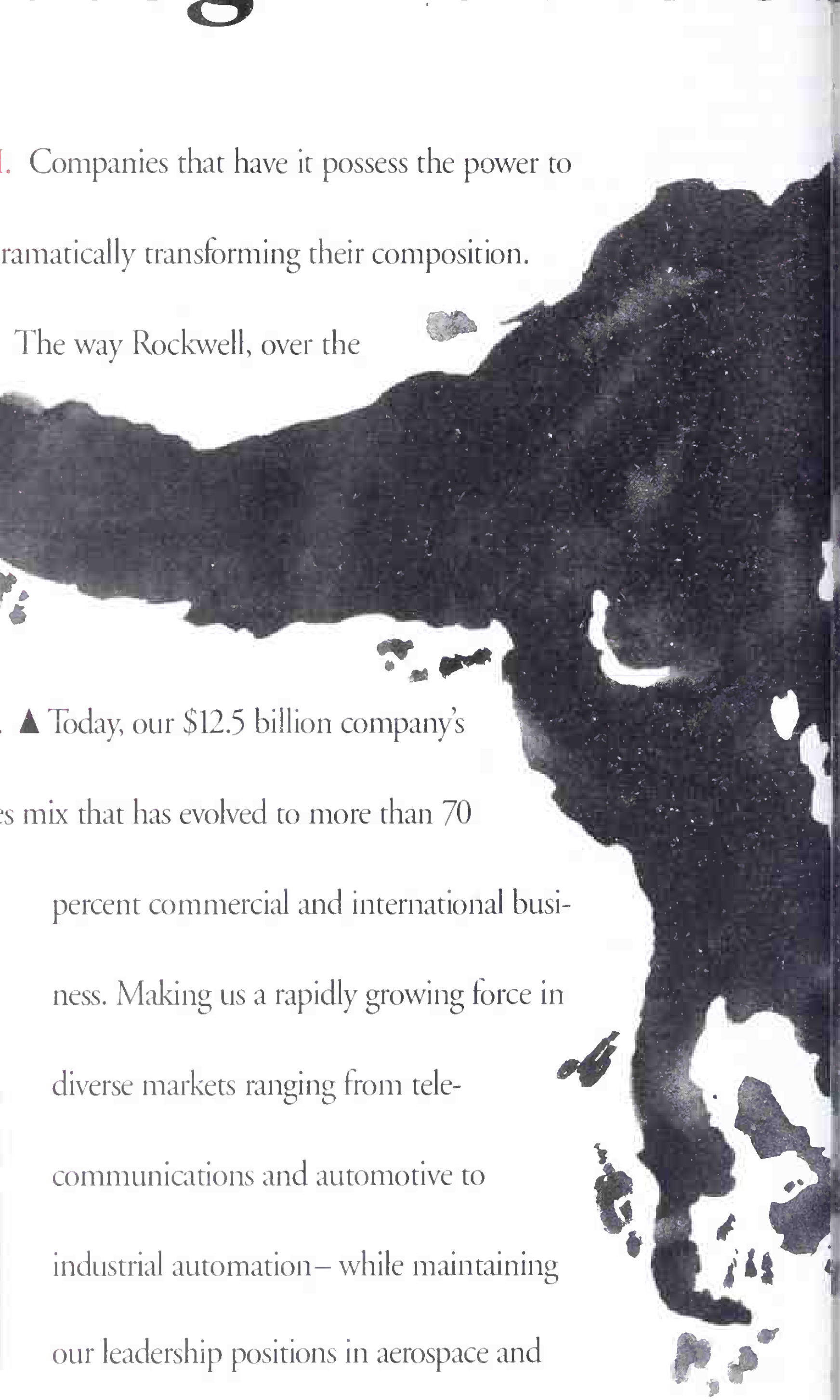

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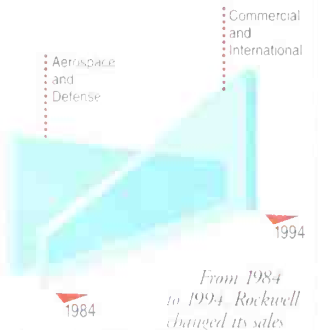

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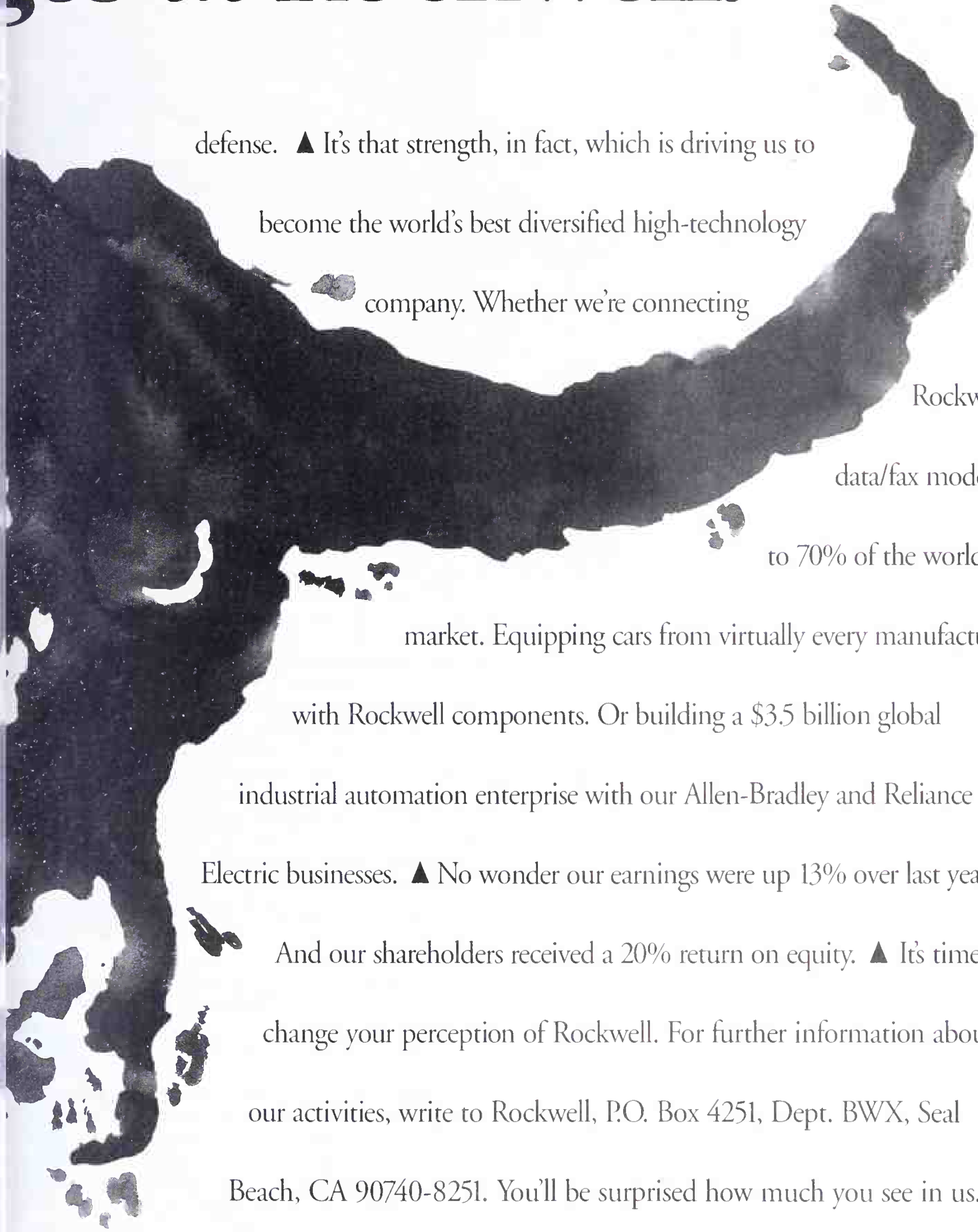

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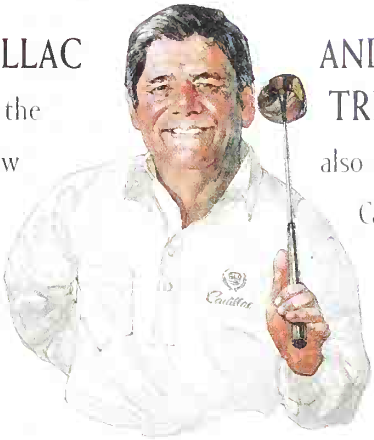

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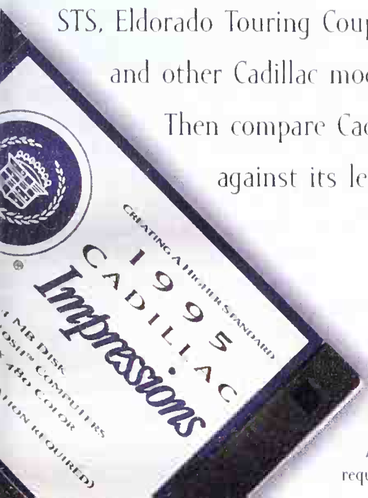
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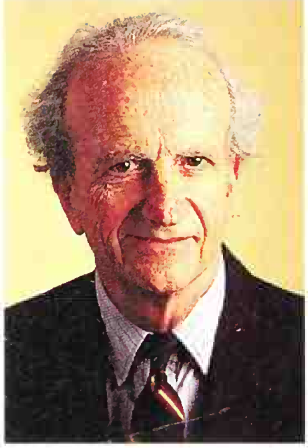
BY GARY S. BECKER

RULE NO. 1 IN SWITCHING TO CAPITALISM: MOVE FAST



Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

MICHAEL L. ABRAMSON

FLEET FEAT: Many economists advocate a slow pace, but evidence shows that a quick leap allows market forces to work their magic

The very different paths taken toward market economies by the ex-communist nations provide a remarkable laboratory on how to transform centrally planned economies. The evidence from these experiments is loud and clear: It's best to introduce large changes rapidly without waiting to discover the "right" sequence of reforms. Moving quickly allows the transformation to be guided mainly by the spontaneity of innovative market forces rather than by government planners or technocrats.

Still, many economists advocate a slow, systematic pace. They believe that the ordering of reforms toward a market economy makes an enormous difference to the long-term success of the process. Yet history offers little guidance on what the proper sequence might be, simply because of the unprecedented scale of transformation required by the collapse of communism. Nor does economic theory provide an adequate blueprint. Markets have their own dynamics that are often impossible to anticipate.

Prime Minister Vaclav Klaus of the Czech Republic has led the highly successful transformation of that nation. In a recent book of essays, he emphasizes that an overhaul should be done rapidly and with a "mixture of intentions and spontaneity." Similarly, Adam Smith more than 200 years ago in his *Theory of Moral Sentiments* argued that important public policy changes cannot be planned the way a master chess player moves pieces around on a chess board.

FOOT-DRAGGING. Rapid reform can also prevent interest groups who thrived under communism from organizing effectively to slow and even derail the transition to a market economy. These groups were on the defensive for a while after the old regimes toppled. But now, most of the current leaders in the ex-communist countries are former communists, and these politicians are slowing the pace of change by appealing to the elderly and others hurt by the capitalist upheaval.

Telling evidence that foot-dragging on the road to the free market hurts is not hard to find in Eastern European nations. Take their experience in privatizing state-run companies. Hungary, Poland, Romania, and most other ex-communist nations have held off privatizing thousands of midsize and large enterprises until government "restructures" employment, overhauls accounting practices, and changes the product mix at the vari concerns. Since getting companies "rea takes time and runs into opposition fr management and workers, government rected privatizations have been slow and efficient. In Poland, despite its quick s toward sensible fiscal and monetary polic almost half of its large enterprises rem in government hands. Unemployment is v over 10%, and only a few companies are tr ed on its stock exchange.

BRILLIANT IDEA. In sharp contrast, the Cz Republic acted before political opposition co organize and relied on market forces. Kl and a small team of associates came up w the brilliant idea of selling vouchers at a n inal price to the general public that t could use to bid for stock in different com nies. In just three years, the Czechs u vouchers to privatize over 2,000 enterpri and they have essentially completed this st of the transformation process.

Despite a few scandals and other pr lems, the Czechs succeeded beyond even most optimistic expectations. Many mut funds and other financial intermedia formed to buy vouchers and bid for sha These investors gained a voice in guiding newly privatized enterprises. A sophistica stock market developed where shares in h dreds of companies are traded every day, the few dozen traded on other exchange central Europe. The Czech Republic has lowest unemployment rate in Europe, e though most of its privatized companies h been restructured by their new owners.

The success of the Czech approach enc aged the Russian Republic to introduc slightly modified version of the voucher p in 1992. It took Russia only two years to vatize some 14,000 midsize and large com nies, and by June, 1994, more than 85% of country's industrial labor force was working the private sector. Russia has not achieved macroeconomic stability or a sta currency, but it has managed to quickly s an economy dominated by state-owned com nies to a system of private ownership.

Abundant evidence from the ex-comm nist countries indicates that it is a mist for government bureaucrats to attempt fine-tune the transformation to market ec omies. It is much better to unleash the sp taneous creativity of businesspeople, work and markets.

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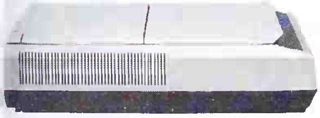

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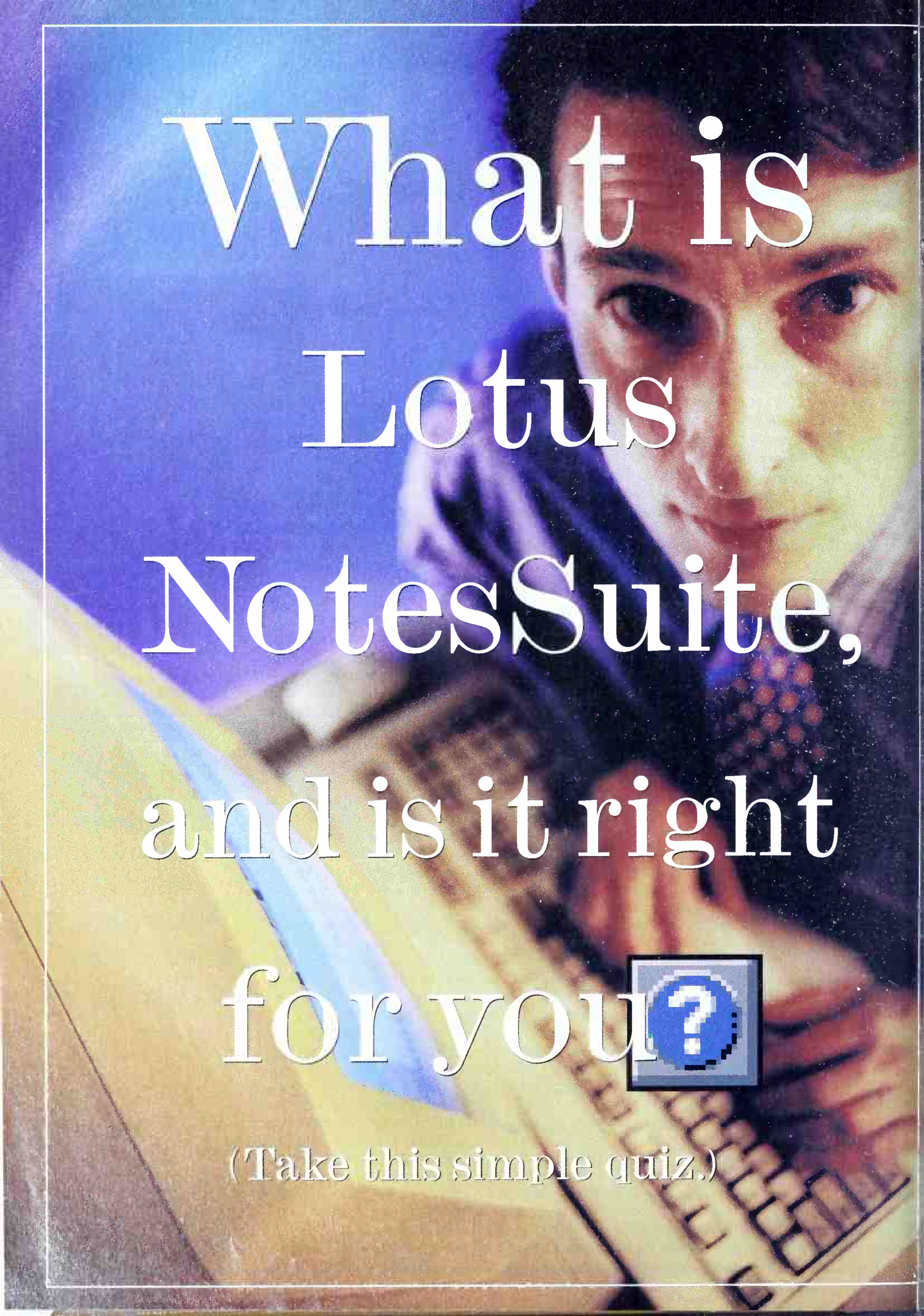
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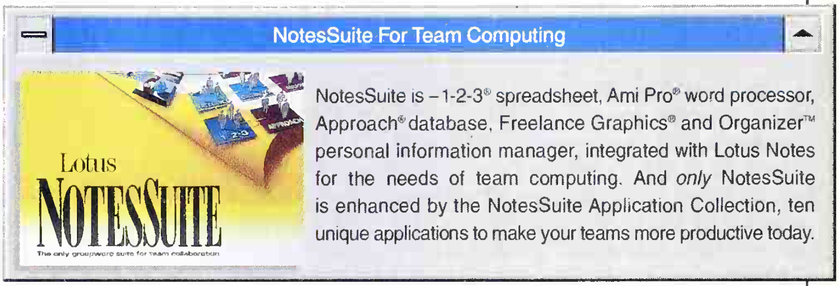
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Economic Trends

BY GENE KORETZ

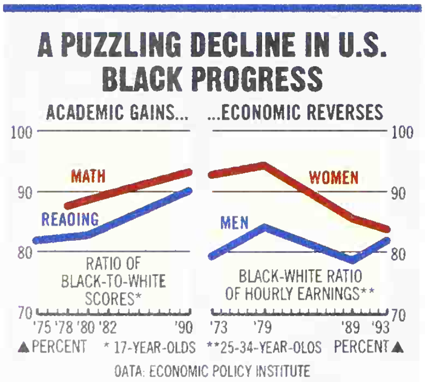
WHAT HELD BLACKS BACK?

Gains in education haven't paid off

Educational achievement is supposed to provide greater rewards in the workplace. Yet, notes economist Jared Bernstein of the Economic Policy Institute in a new study, despite educational progress by blacks in the 1980s, the gap between their wages and those of whites at all education levels (except high school dropouts) widened during the decade—suggesting that job discrimination may actually have increased.

Blacks' educational gains have been significant. Whereas the median years of schooling of black men and women were about two years less than those of whites in 1970, for example, by 1990 the gap was down to just 0.2 to 0.3 years. And while high school dropout rates of blacks and whites of both sexes declined in the 1980s, they fell far more sharply among blacks, almost eliminating the gap between black and white males.

Similarly, nationwide tests of 17-year-olds in reading and math skills show blacks gaining considerable ground on whites between 1975 and 1990 (chart). And the gaps between black and white SAT (Scholastic Aptitude Test) scores in math and verbal ability narrowed by more than 20% from 1976 to 1990. According to a Rand Corp. study, rising parental education levels and fewer children per household helped black youths move ahead despite increases in poverty and single-parent families.



Unfortunately, such progress hasn't produced commensurate economic gains. After narrowing the hourly wage gap during the 1970s, for example, blacks generally lost ground relative to whites in the 1980s (chart). The decline occurred among both younger and older adults, and it was particularly pronounced among college-educated black men. Indeed, Bernstein argues that drops in both college aid for low-income students and in the relative rewards of a college education explain why the percentage of young black adults with college degrees stopped rising in the 1980s.

Why haven't blacks' educational gains paid off? Bernstein thinks blacks have been especially vulnerable to such trends as the shift to white-collar jobs, declining unionization, and widening wage inequality that favors the most highly educated workers. And though the black-white male wage gap may have recently started shrinking again, he also observes that young black males continue to leave the labor force—suggesting that racial discrimination still weighs heavily on their job prospects.

CANADA'S FATE IS IN U.S. HANDS

Its economy is tied to its neighbor's

After growing a spectacular 5.6% in 1994, the Canadian economy is slowing sharply and runs the risk of posting nearly zero growth in the current quarter, reports economist Ian Amstad of Bankers Trust Co. Soaring exports have recently succumbed to the slowdown in U.S. demand, he notes. And draconian monetary tightening by the Bank of Canada around the turn of the year, to support the collapsing Canadian dollar, has pulled the rug out from under interest-rate-sensitive sectors.

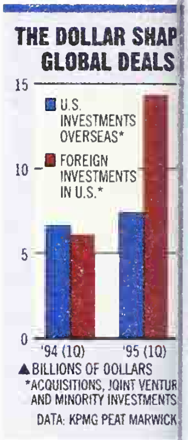
Housing starts, for example, have collapsed below their 1991-recession troughs, and auto sales are off 20% in the past six months. Employment gains have also stalled abruptly in the past six months, after posting nearly a 4% growth rate through most of last year.

With federal and provincial budgets tighter than anticipated, the U.S. Federal Reserve's monetary policy on hold, and the risks of Quebec going it alone apparently receding, Canada may well weather current economic storms. But Amstad notes that its economic fate is precariously tied to a successful soft landing by the U.S. A worsening U.S. slowdown, for example, could undermine Canada's economy and fiscal plans. Conversely, Amstad warns that "a U.S. reacceleration could prompt the Fed to tighten, condemning Canada to an era of high interest rates and/or renewed currency weakness."

WEAK DOLLAR, WEAK HEARTS

The U.S. sits out an equity shuffl

There's little doubt that the doll
gyrations early this year left
stamp on global deals by multinati
companies. As tallied by KPMG Peat M
wick, the value of cross-border acqu
tions, joint ventures, and minority-st
investments announced in the first quarter hit $42.6 billion, up 39% from 1994's first quarter. But rising dollar prices of foreign assets obviously inhibited U.S. companies. The value of their foreign deals rose by just 12%, to $7.43 billion.



In contrast, the spectacle of suddenly cheap U.S.
assets clearly whet the appetites of
eign companies, whose first-quarter U
purchases hit $14.4 billion (chart). E
Japan got into the act, boosting its U
outlays nearly sixfold, to $1.48 billio

A DUBIOUS SURG IN JOB-SEEKERS

This year's pickup may peter out

Something odd is afoot in U.S. la
markets, says Paul Boltz of T. R
Price Associates Inc. One reason the
less rate has climbed is an unexpec
sharp acceleration in labor force grov

So far in 1995, the labor force
jumped by more than 1 million, imply
an annual increase of 3 million. In
history books, notes Boltz, only one y
saw labor-force growth hit 3 mill
1978, when maturing baby boom
were flooding the job market. Si
demographic trends are now less fa
able, the recent acceleration looks o

Boltz also notes that the labor fo
surged in a similar fashion early in 1
To the chagrin of the Bush Adminis
tion, a 1.63 million rise in the first
of that election year pushed up the
employment rate to 7.7%. In the sec
half, however, the labor force grew b
paltry 200,000. If the same pattern
folds this year, the jobless rate may
again even as the economy slows.

ERIC HOFFMANN/BW

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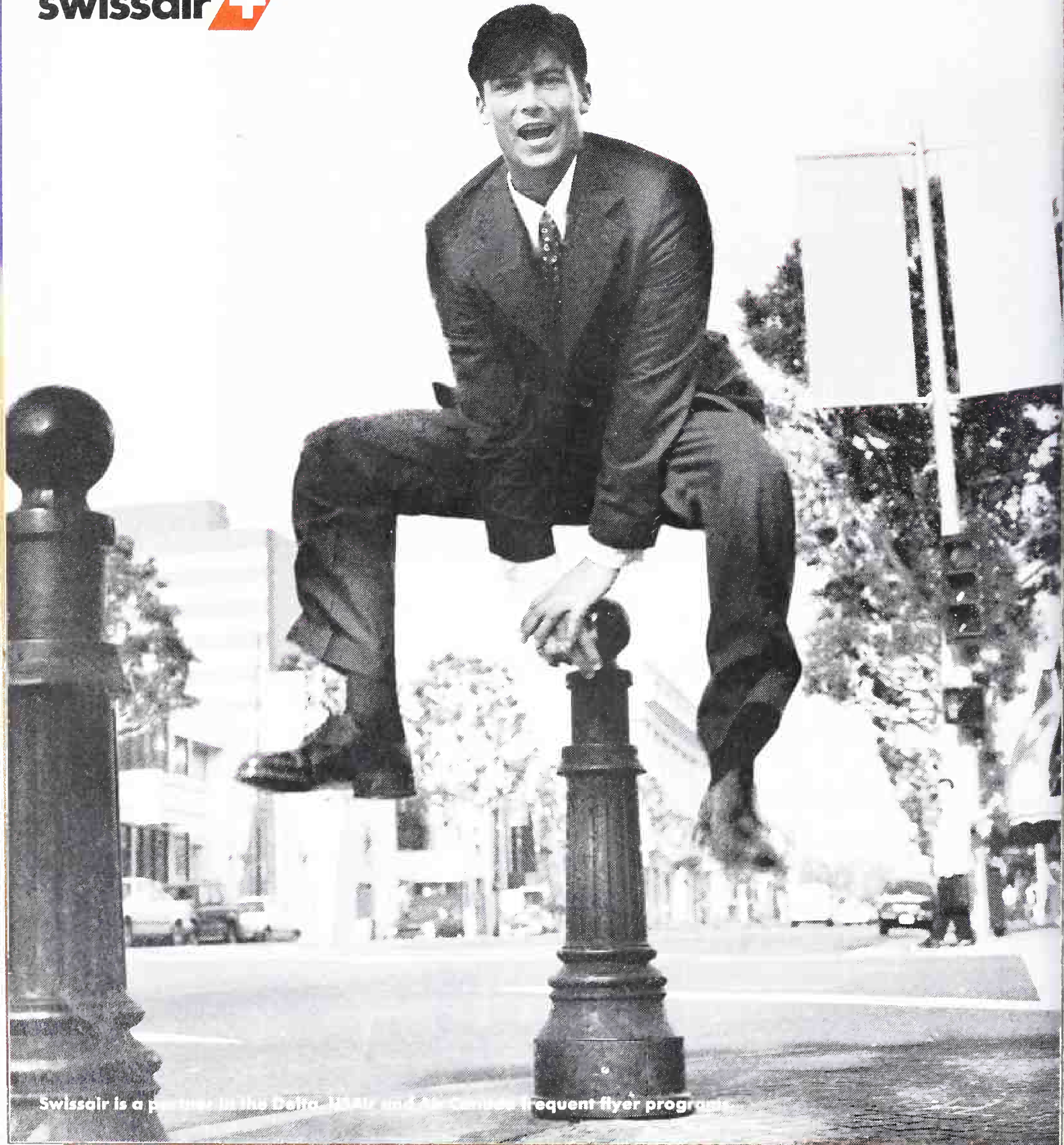

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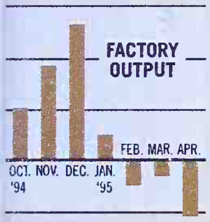
JAMES C. COOPER & KATHLEEN MADIGAN

F YOU'RE LOOKING FOR A RATE CUT, OU'LL HAVE TO WAIT

U.S. ECONOMY The Federal Reserve has a lot to ponder at its next policy eting on May 23. Suddenly, the domestic part of economy looks downright sickly in the second quar- , and inflation appears to be accelerating a bit. At the ne time, Capitol Hill seems to be getting its budget- ancing act together—something that has added sup- t to the recent rallies in both bonds and the dollar. at's the Fed's next move?

ORE ASSEMBLY LINES SIT IDLE



ONTHLY PERCENT CHANGE

ATA: FEDERAL RESERVE, BUSINESS WEEK

The economy's paler cast strongly argues that the Fed's next action will be a rate cut. After all, in February, top Fed officials said the central bank will ease policy preemptively in order to avoid recession in much the same way it tightened earlier to nix inflationary pressures.

However, an easing move still seems to be a long way

To be sure, the slowdown signals are increasingly inous. In April, industrial production, real retail es, and housing starts each began the second quarter ll below their first-quarter levels (charts). About only things that began this quarter higher than last rter are new jobless claims, inflation, and probably entories. Not a comforting mix.

OK CLOSER at the economy's weakness and under- ng supports, however, and there is little to indicate t the Fed has overtightened. Excess inventories mostly to blame for the factory sluggishness. Stur- income growth means that consumers have plenty of h to spread around at their local malls. And the ep decline in long-term interest rates of late will pro- e stimulus for housing and other sectors of demand, n without an immediate Fed easing.

The slowdown is fundamentally a midcycle inventory rection. Although many industries are nursing excess entories, the correction is also disproportionately centrated in the auto industry. Removing that log- alone, which should be accomplished by summer's l, will provide a lot of relief.

Moreover, excess inventories in the retail sector lude many imports, which will mitigate the impact fewer retail orders on U.S. manufacturers. Also, S. manufacturers' reaction times to overstocking ve become so rapid in recent years that the output ustment will be much faster, with less chance that a severe inventory problem will develop.

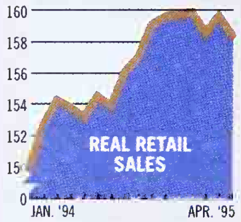
In the meantime, the Fed will have to keep at least one eye on inflation. Both the producer and consumer price indexes in April were a little unruly.

The CPI jumped a defiant 0.4% in the month, as did the core index, which omits energy and food because they often distort the trend. For the past six months, core consumer inflation stands at an annual rate of 3.4%. That's the fastest six-month rate in nearly two years, and it's up from 2.8% in the previous half year.

If monthly increases in the core index alternate between 0.2% and 0.3% for the rest of the year—a likely result—core inflation will end 1995 at 3.5%. Even under that tame scenario, the core rate will accelerate nearly a full percentage point, from 2.6% in 1994.

THE FED has suggested, however, that it will tolerate at least a mild pickup in inflation as long as the economy shows clear signs of slower growth. And does it ever. Retail sales fell 0.4% in April. Even excluding a sharp drop in car-buying, sales elsewhere still managed only a slim 0.1% gain. Demand for durable goods generally was weak, with sales declines in both building materials and furniture as well as autos.

HOW LONG WILL SHOPPERS STAY HOME?



▲BILLIONS OF 1987 DOLLARS

DATA: COMMERCE DEPT, BUSINESS WEEK

Early-bird signs for May, however, indicate that consumers haven't given up shopping for good. Retailers gauged sales in the second week of the month as generally "on or above plan," according to key weekly surveys. The two leading roundups each show that seasonally adjusted sales in the first two weeks of May stood about 0.4% above April's level.

Amid price hikes and still-high financing costs, car sales will be slower to come around. Unit sales of cars and light trucks in April fell to an annual rate of 13.8 million, the fewest since last July. Although Detroit already pared down April output substantially, further cutbacks in May and June will be needed to rein in bulging dealer inventories.

Apr. 30 dealer stocks of U.S.-made vehicles jumped to an 82-days' supply for cars and a 78 days' total for trucks. Both are far above the more desirable 60 days, suggesting that, without stronger demand, planned May and June output reductions may not be enough.

Motown's weakness hit the nation's industrial produc-

ERIC HOFFMANN/BW

tion hard in April. Although output in mining and utilities rose, production in manufacturing dropped 0.5%, the third straight monthly decline, something that hasn't happened since the rough early days of this expansion. About half of the April drop reflected a steep 4.4% plunge in output of motor vehicles and parts. And the weekly BUSINESS WEEK production index indicates output continued to slip in early May (page 101).

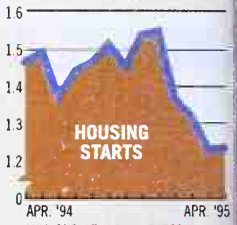
Paralleling the recent retail-sales weakness, output of consumer goods was especially soft in April, including further cutbacks in production of household appliances and furniture. Weak auto and truck output also dragged down production of business equipment. That was the first monthly decline in three years, but output of information equipment continued to rise strongly, providing a key support under production.

THE HOUSING SLOWDOWN continued to hit output of construction supplies. April housing starts did not rebound from their steep 6.7% decline in March, as many analysts had expected. Construction of homes and apartments edged up 0.4% in the month, to an annual rate of 1.24 million. Still, lower mortgage rates are improving the mood of builders, says the National Association of Home Builders.

The trade group's new housing-market index, a measure of market health and builder confidence, rose in May to the highest level since December. Builders said buyer traffic was marginally higher in May after d
clines in previous months, and their expectations
sales in coming months were up. The reason: Mortga
rates averaged a 14-month low of 7.87% in early M
says the Federal Home Loan Mortgage Corp.

For the Fed, the bright spot in the production adjustment is the sharp decline in the rate of capacity use, a sign that markets have more slack and price hikes will be harder to pass on. Operating rates in manufacturing fell 0.8 percentage point, to an average of 83.5% in April. That's down sharply from the recent peak of 85.2% in January.

NO APRIL BOUNCE FOR BUILDERS



▲MILLIONS, AT ANNUAL RATES

DATA: COMMERCE DEPT.

The economic slowdown, combined with prospe
for serious deficit reduction, is paving the way for
eventual easing of Fed policy that will help to exte
this expansion, already four years old. Done over se
en years, budget-cutting will create a minimal fis
drag in any given year that can be offset easily by lo
er interest rates.

But the soft-landing scenario is only now beginning
play out. The Fed will need a lot more evidence th
things are going its way before it's willing to make
major policy shift.

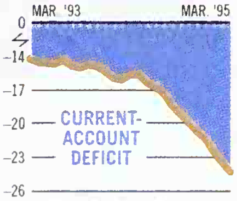
AUSTRALIA

GOOD BUDGET NEWS LEAVES THE MARKETS UNMOVED

Australia's 1995-96 budget contains something rare: a surplus. But financial markets are far more drawn to the record current-account deficit.

The new budget proposed by Prime Minister Paul J. Keating's government promises a small surplus of A$718 million (U.S. $524 million) for the fiscal year starting July 1. The plan depends on a hike in corporate income-tax rates, to 36% from 33%, and asset sales. Rising taxes dimmed consumer confidence, as the Westpac index fell 5.8% in May.

THE AUSSIES TUMBLE INTO A TRADE HOLE



▲12-MONTH MOVING SUM, BILLIONS OF AUSTRALIAN DOLLARS

DATA: DRI/McGRAW-HILL, BUSINESS WEEK

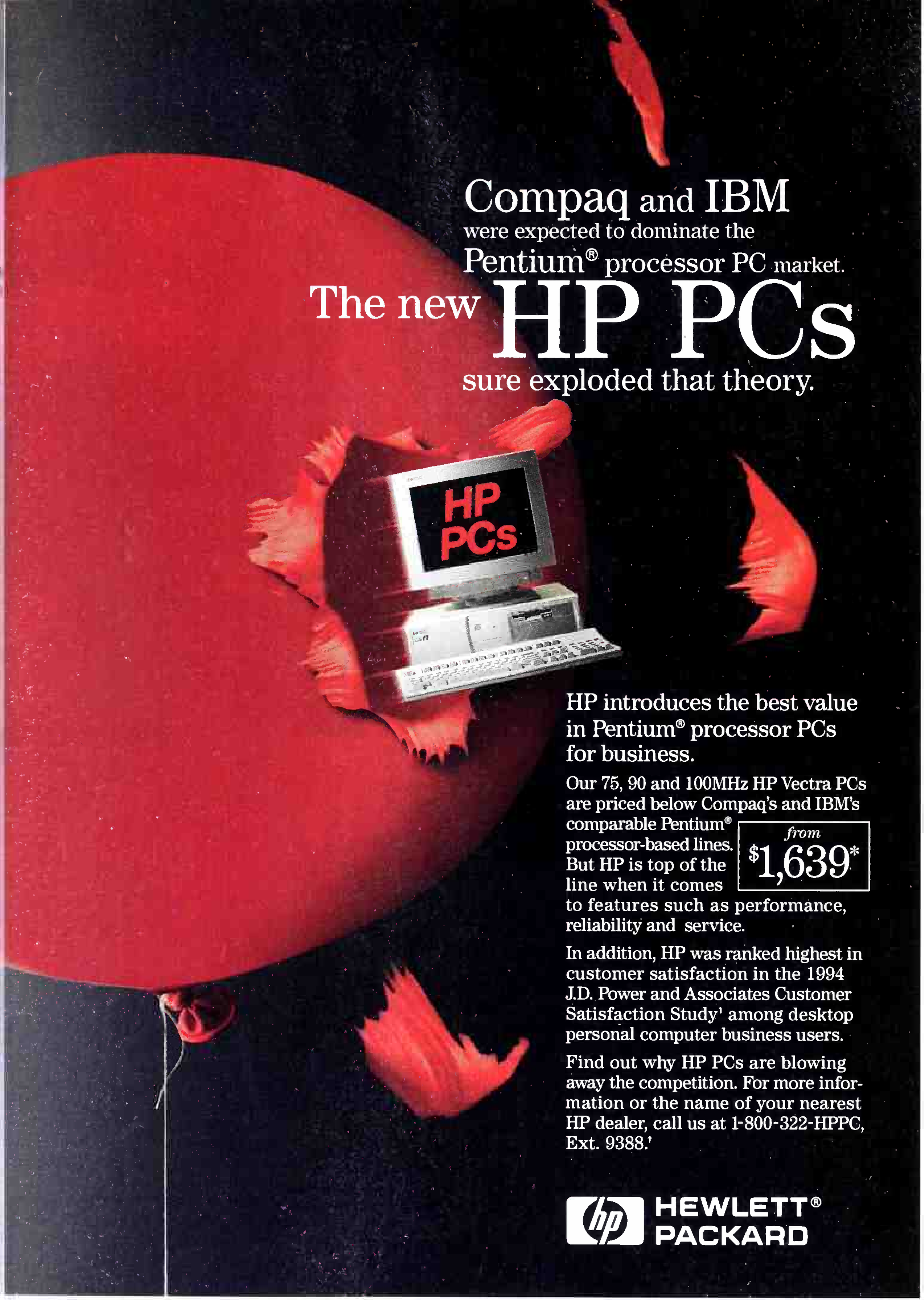
The budget also expects real gross domestic product to grow 3.75% in fiscal 1995-96, but economists already say that forecast may be too optimistic given tighter fiscal and monetary policies.

Members of the ruling Labor Party argue that fiscal restraint will take the pressure off the Reserve Bank of Australia, which has lifted interest rates three times since August. But with the economy still strong, the RBA may have to hike rates again. Employment surged 90,400 in April, more than 10 times the consensus forecast. April's jobless rate fell from 8.7% to a 4½ year low of 8.3%.

What stole attention from the surplus news was the government's forecast of the current-account deficit, which has been worsening since last year (chart). Because of higher interest payments to foreigners, the 1995-96 deficit is likely to remain at this year's record A$27 billion, or 5.5% of GDP. Australia's domestic savings must rise to curtail the need for foreign funds. And to that end, the government proposed a compulsory superannuation, or pension, plan. But it won't kick in until 1997.

By then, Australia's trade position will be hurt by other factors. The 1994 drought means fewer agricultural exports, and Aussie auto-parts makers could be a casualty in the Japanese-U.S. trade dispute. The current labor strife doesn't help, either. And unluckily for Labor, which must call elections by next March, the financial markets may punish Australia for its bigger trade deficit while ignoring the government surplus.

ERIC HOFFMANN/BW



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MAGNATES

MAN BUYS WORLD

Rupert Murdoch is on the march—and his media rivals are shuddering

Outside Rupert Murdoch's office suite at Twentieth Century-Fox studios in Beverly Hills, the hallway is lined with movie posters from such Fox classics as *The Sound of Music* and *Butch Cassidy and the Sundance Kid*. Inside, though, Hollywood gives way to Murdoch's personal tastes. Australian abstract paintings share wall space with Warhol-esque press plates from Murdoch's racy London tabloid, *The Sun*. "Up Yours Delors" shouts one headline. "Freddie Starr Ate My Hamster" blares another.

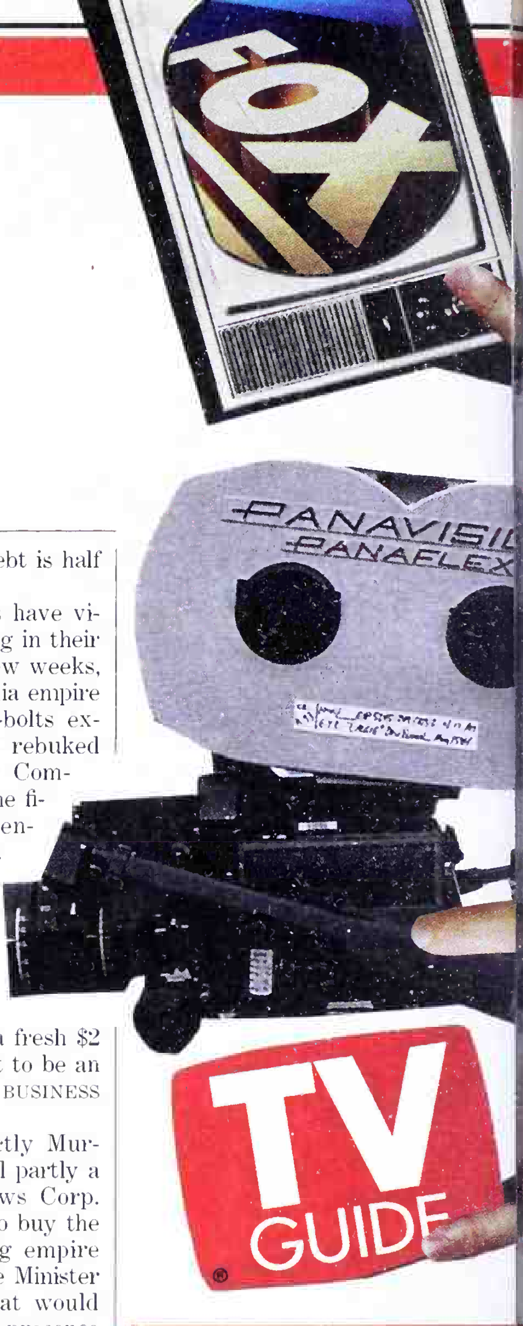
Murdoch may spend much of his time in Tinseltown these days, but he has always seemed best suited to the pugnacious world of Fleet Street. As rain spackled the windows of his Fox offices one recent afternoon, he let his mind drift far from Los Angeles and the movies. Standing before a four-foot-wide map of the world, he zeroed in on Europe and Asia, the latest of his many battle zones. "That's where the money is," he said, pointing to Germany, then Japan.

If Rupert Murdoch knows anything, it's where to find the money. And at 64, he has never been better positioned to go mining for it. After a remarkable decade of financial brinkmanship that almost landed him in bankruptcy court, Murdoch is suddenly the one media mogul loaded with resources. While rivals such as Tele-Communications Inc. and Time Warner Inc. wrestle with mounds of debt and other obligations, Murdoch's News Corp. is flush with cash from its global stable of newspapers and broadcast assets. Its $5 billion in debt is half of what it was five years ago.

Plenty of media executives have visions of superhighways dancing in their heads. But during the past few weeks, Murdoch has shored up a media empire focused squarely on nut-and-bolts expansion. Since April, he has rebuked the Federal Communications Commission and its challenge to the financial structure of his seven-year-old Fox Broadcasting Co. network. He also has hooked up with MCI Communications Corp. Chairman Bert C. Roberts Jr. in an interactive-technology deal that is amorphous in all but one respect: It will supply Murdoch with a fresh $2 billion. "We certainly intend it to be an acquisition vehicle," he told BUSINESS WEEK (page 29).

LIGHTNING ROD. Where exactly Murdoch will place his bets is still partly a guessing game. But the News Corp. chairman already is angling to buy the Fininvest TV and advertising empire owned by former Italian Prime Minister Silvio Berlusconi—a deal that would greatly enhance News Corp.'s presence in the rich European market. Murdoch says he also has his eye on distribution assets in Latin America. In the U.S., he hopes to buy more television stations for his feisty Fox network and more cable channels to go with his nascent f/x network.

The most important use of Murdoch's newfound wealth, however, will be to plow it into the projects already at hand—while reining in the more reckless side of his entrepreneurial nature. A close look at what he has on the table—from his Star satellite television operation in Asia to his Vox TV channel in Germany—indicates that the capital investment in front of him runs well into the billions. These are complex businesses, and Murdoch is trying to build them in the face of fierce competi-



An Octopus Fro Down Under

News Corp. holdings, 1995 sa

NEWSPAPERS

Britain: *The Times, The Sunday Times, Today, The Sun, News of the World*
U.S.: *The New York Post*
Australia: 100 papers including *Australian, Daily Telegraph Miri* and *The Herald-Sun*

* Estimate for fiscal year ending June 30, 1995

PHOTOGRAPH BY ALAN LEVENSON; ILLUSTRATION BY STEPHEN KRONINGER

NEW YORK POST
TIMES SQUARE PRIEST PROBED

TELEVISION

adcasting and eight U.S. affiliates	$1.9 BILLION
satellite delivery or Britain ake)	$1.3 BILLION
satellite system the Middle East, ia (64% stake)	$120 MILLION

FILM

h Century-Fox	$2.3 BILLION

BOOK PUBLISHING

HarperCollins	$1.2 BILLION

MAGAZINES

TV Guide and free-standing inserts for newspapers	$1.5 BILLION

MULTIMEDIA

Delphi Internet Services	$25 MILLION
MCI joint venture	NA

DATA: NEWS CORP., MERRILL LYNCH & CO., BUSINESS WEEK

tion in Europe and Asia. The latter, says Viacom Inc. Chairman Sumner M. Redstone, "has the biggest potential payoff of any market. But it is also the most expensive."

Murdoch, meanwhile, faces a unique challenge. More than anyone else in business, he is a lightning rod for political and regulatory scrutiny. The FCC battle—though successful—was only the most visible of his recent political entanglements. In the past month, he has battled British politicians over his attempt to win a license for a new TV channel and Chinese authorities over restrictions on the sale of satellite dishes. Governments worldwide are wary of his gaining too much influence.

"GREAT SEDUCER." Murdoch, of course, has made a career of defying odds—financial and political. Two years ago, his $1.6 billion bid to take National Football League games away from CBS Inc. was thought to be reckless. But the payoff in ratings gains and ad revenue at the Fox network has been substantial. As for politics, using both the power of his newspapers and publishing contracts from HarperCollins, his book publishing company, he has cultivated lawmakers masterfully. Says Frank Barlow, managing director of British media giant Pearson PLC: "He's a great seducer."

MCI's Roberts, for one, was captivated. His pledge to buy 13% of News Corp. for $2 billion looks to be more an investment in Murdoch's vision than anything else. The first step of their joint venture will likely be to merge News Corp.'s Delphi online service with MCI's new Internet operations. But despite all the "superhighway" hoopla surrounding the May 10 announcement, Murdoch makes it clear that the vehicle mostly will be used to raise money for bread-and-butter media acquisitions. "I think [interactivity] will happen," he explains. "I'm just very cautious about when." Says Roberts: "I would be the first to tell you that he knows what he is doing and we are going to look to him for expertise."

For now, Murdoch will add MCI's $2 billion to the nearly $3 billion it already has in cash and receivables. The Berlusconi deal, if it happens, would be financed through European operations that can raise money on their own. Otherwise, he will buy opportunistically. "I don't think you'll see him on a buying spree," says one Murdoch intimate. "But he has liquidity and resources now

Murdoch believes in the interactive future, but for now he's putting his eggs into TV stations and satellites

to take advantage of the opportunities that arise."

Murdoch's last big acquisition was the one that brought him into Asia two years ago. He spent $525 million for a 64% stake in Star TV, a struggling satellite network service. Star potentially could beam programming to 220 million households. The problem is nobody really knows for sure how many people receive it. And getting viewers to pay for service is another question altogether.

Murdoch admits his strategy is a high-risk gamble. Generating substantial revenues means starting from scratch in many markets and breaking down political opposition in others. Murdoch has made headway selling the service in India, largely because in 1993 he bought a 49.9% stake in Asia Today Ltd., which broadcasts India's popular ZEE TV. But China and Malaysia have been off-limits. The reason: Murdoch made the mistake early on of saying that satellite delivery of information would topple totalitarian governments. Even India, with its relatively lax political climate, has proved troublesome. Star recently was forced to suspend one of its more popular talk shows when a guest mildly slurred Mahatma Gandhi.

LOCAL FODDER. Unable to meet audience projections, Star has lost advertising revenue. Murdoch says the operation won't be profitable for five years—but even that is probably optimistic. Already, this year's projected $20 million loss has ballooned to $50 million, on estimated sales of $120 million. Winning new viewers will cost bundles more.

Digitization will eventually create hundreds of new channels for the service, and Murdoch plans to use them to customize programming for different markets—say, an offering in Mandarin for China and another one in Cantonese. He is also creating and sponsoring sports leagues to give him local fodder to televise: badminton and basketball in China, cricket in India. The problem, says one rival TV executive in Asia, is that localization of programming "sends your costs through the roof."

Murdoch got a break when a rocket carrying the satellite for a rival service blew up last year, delaying a service sponsored by ESPN, Time Warner, and others. That gives him some breathing room. Still, ESPN has made inroads elsewhere in Asia. And Viacom's MTV, which left Star a year ago because Murdoch wouldn't give up a slice of Star equity, formed its own music station with PolyGram.

Britain, however, shows what can happen when a big satellite investment pays off. British Sky Broadcasting, his satellite service there, may have lost a staggering $1.2 billion between 1989 and 1993. But largely because Murdoch paid $456 million to telecast Premier League soccer games starting in 1992, BSkyB now has 4 million subscribers, and for the first nine months of the current fiscal year, it earned $164 million on $892 million in sales.

Ahead of most of his rivals, Murdoch plans to offer digitally compressed Sky signals sometime next year that will increase the service's 22 channels to 200 almost overnight. With that many ch es, he plans to offer pay-per-view r vies every 15 minutes.

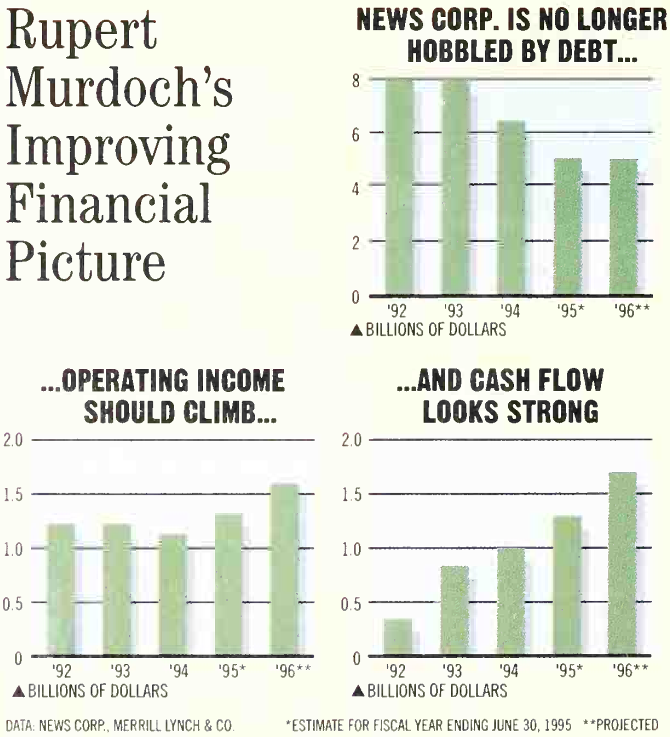
Expanding the News Corp. banner the rest of Europe will be much m difficult. For starters, BSkyB does own the rights to its popular movies o side Britain, and British soccer match won't lure many viewers on the Co nent. Relatively few Italians and Fre own satellite dishes. Competition alrea is heavy from the likes of Viacom, U West and French pay-TV giant Ca Plus. In other areas, state-controlled ble companies aren't likely to welco Murdoch with open arms. "Europe w be an uphill battle," says Pearson's B low, the former chairman of BSkyB.

"WE'VE GOT THE MONEY." Murdoch's r jor beachhead outside Britain is the sta he owns in Vox, the German pay chan News Corp. took control of from B telsmann last year after losses mount to $215 million. But with more than channels in Germany, over 25 of th nationwide, competition is fierce for t $37 billion advertising market. St armed with technical advice from BSky Vox hopes to break even by 1998, cording to Chief Executive Markus T lenbach. Murdoch figures can increase Vox's 3% m ket share to 10%. Rivals, course, aren't so sure.

The source of Murdoc strength at the moment his profitable newspape and his eight Fox-owned stations—which will thr off $300 million in oper ing earnings this year. deed, the seven-year-o Fox network has beco the fulcrum of Murdoc media empire. That's w in the wake of the FCC v tory, News Corp. executi are scurrying for ways expand. In Washington, lo byists have been fighti for telecommunications le islation that would all Murdoch to increase t number of TV stations owns. "If we're able, we going to try to buy som thing out there," says Cha Carey, chairman of t broadcasting unit.

The reason is simp

Rupert Murdoch's Improving Financial Picture



DATA: NEWS CORP., MERRILL LYNCH & CO. *ESTIMATE FOR FISCAL YEAR ENDING JUNE 30, 1995 **PROJECTED

ERIC HOFFMANN/BW

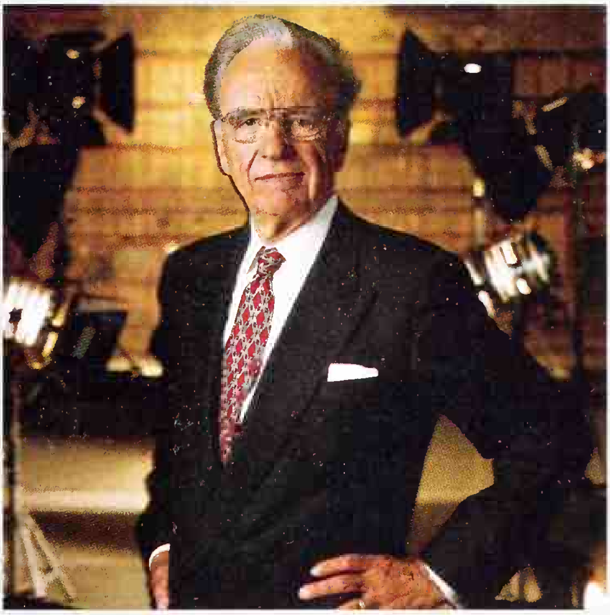
ough. With the hefty costs of the NFL mes, the Fox network barely broke en this year. Additional stations would ow Fox to spread its costs. Moreover, the world goes digital and viewing oices explode, Fox needs the strong- distribution network possible to cut ough the clutter. With racy offerings ch as *Melrose Place* and *Married* *th Children*, Fox appeals to the young viewers advertisers crave. Boosted by football, ratings rose by 7% this year. And Carey hints that Fox will bid on the Sydney Olympics in the year 2000. "We've got the money to be opportunistic," he says.

While opportunism is, in many ways, Murdoch's religion, he insists he has become more cautious in its practice. Time will tell how cautious. Meantime, rivals will watch his every move. "Anyone who bets against Murdoch is making a mistake in my point of view," says Viacom's Redstone. Especially when he has a few billion burning a hole in his pocket.

By Ronald Grover and Michael Oneal in Los Angeles, with Paula Dwyer in London, Dave Lindorff in Hong Kong, and Mark Lewyn in Washington

'I DON'T WANT TO KEEP BETTING THE COMPANY'

On May 15, Rupert Murdoch spoke with Los Angeles Bureau Chief Ronald Grover and Associate Editor Michael Oneal in his Los Angeles office.



ALAN LEVENSON

REGULATION: "Governments... see concentration, but we've been a catalyst at all times for competition" — RUPERT MURDOCH

Q: *Why did MCI come to you?*

A: They've been getting into online services and software. They thought they had to make a major alliance. I think what attracted them was our global nature and obvious global ambitions.

Q: *The investment gives you money to make acquisitions, doesn't it?*

A: We've got about $3 billion that we won't be touching. We'll add this money to that until we buy something. What might we buy? I don't know. I made a joke about CNN just to annoy Ted [Turner] the other day. He gets a bit excited at times. As for the joint venture, we certainly intend it to be an acquisition vehicle. We'd love to—and I can say this because they're not for sale—I think we'd love to have bought [Hughes Aircraft Co.'s] Direct Television. We will [invest in] the media business. It won't be a steel mill.

Q: *Are you interested in buying Seagram's stake in Time Warner? Or Time Warner's stake in Turner?*

A: No. The [Seagram] stake, I don't see what you do with it except hit your head against a brick wall. Time Warner's stake in Ted—they're talking about selling it at a great premium, and all it carries is a blocking veto. It doesn't give you an active role in what goes on there.

Q: *How big a bet will you put on interactive media?*

A: I think it will happen. I'm just very cautious about when. Maybe I'm too old to get it. But if you look at all the tests about interactivity with, say, movies on demand, it suggests that the average home will buy movies by pushing a button. That's not something that changes the world. It's proving more difficult and more expensive, and you have to start with what people will pay for. They'll pay for electronic games.

Q: *How likely is it that you'll buy Fininvest?*

A: Probably about 30%. We're taking a serious look at it, with Fininvest's cooperation. That will go on for three or four more weeks.

Q: *If you buy Fininvest, you're likely to face government scrutiny in Italy, as you did here. Is there something about Rupert Murdoch that scares people?*

A: I haven't had so much opposition in Washington, really. Governments love to regulate, and they love to interfere with media. They see concentration, but we've been a catalyst at all times for competition. The fact is, with digital technology, it's going to be easy to enter [a market], because no one's going to [have] a monopoly.

Q: *Don't you have a virtual monopoly with British Sky Broadcasting?*

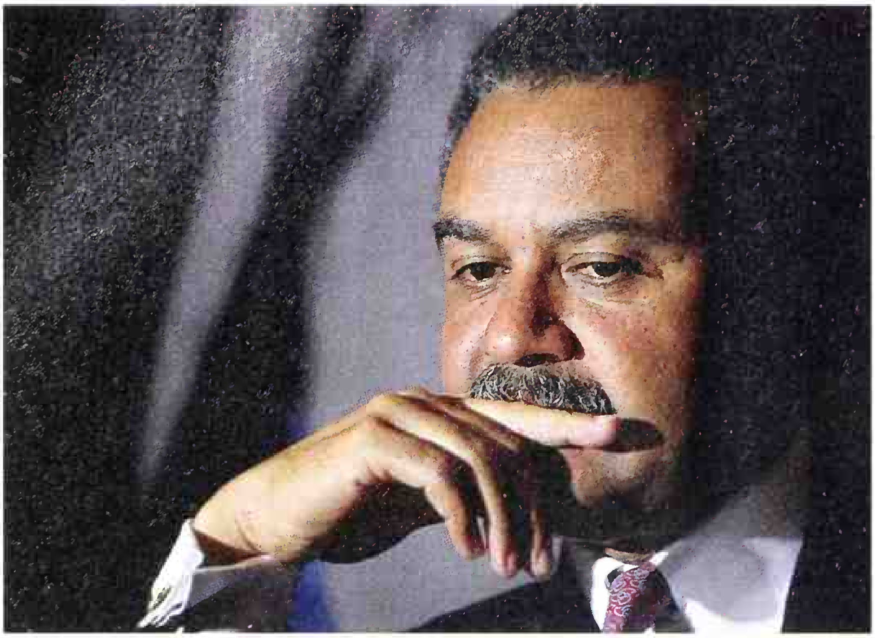
A: Being first helps. What's wrong with that? I mean, why didn't someone else do it? We didn't commit any sin. And others can certainly come in after us.

Q: *Is your view of risk-taking different from that of others?*

A: I don't worry so much about quarterly results. I guess by now I've got a sense of security about taking the long-term view and knowing that the assets will still be there in two years—even if media analysts take different views. We've taken some gambles others might not have. But I don't want to keep betting the company. I'm certainly not going to bet the company again. And I don't believe that we did bet the company.

Q: *Do you feel vindicated after your debt scare in 1990?*

A: Just aged. I don't think about it that way, but we're entitled to [feel vindicated], given what we've put together.... It's all looking pretty good.



MONEY MACHINE: *Brown has clinche multibillion-dollar deals for busine*

VAN DEN BROUCKE/GAMMA-LIAISON

INVESTIGATIONS

RON BROWN MADE COMMERCE. NOW HE MAY BREAK IT

Justice's probe will only amplify GOP calls to scrap the agency

Ask any CEO. Ronald H. Brown will go down in history as one of the best Commerce Secretaries ever. He may also be the last—owing partly to a mushrooming probe of his finances. Almost single-handedly, the Commerce chief has transformed his agency from a backwater into a turbocharged export-promotion machine. But on May 17, Attorney General Janet Reno announced she would ask for an independent counsel to investigate Brown's tangled personal business dealings.

The news couldn't come at a worse time for Commerce, which is the target of a concerted attack by Republican budget hawks who want to kill the $4.2 billion-a-year agency outright. GOP motives don't end there. Republicans are envious of Brown's success in wooing business support for the Administration's policies on trade and technology investment. And Brown is a tempting target because he is a savvy Democratic operator—and close to Clinton.

DYNAMO. Brown's troubles, meanwhile, go beyond the Justice inquiry. On May 16, conservative and legal watchdog groups won a battle in U.S. District Court in Washington forcing the release of 30,000 documents relating to Brown's export-promotion efforts. The activists accuse Brown of using Commerce largesse to spur financial contributions to Democratic coffers from U.S. companies.

At Commerce, aides say they see the independent probe as a far better option than GOP-orchestrated hearings on Capitol Hill. Even so, it will be tough for the Commerce chief to defend his agency against mounting attacks.

SILENT BUSINESS Executives aren't rushing to defend Commerce: Veterans of downsizing think a shakeup is what the bloated department need

Senior White House officials insist they want Brown to stick around. And President Clinton says he backs his Commerce Secretary. That's not surprising: A dynamo in a post that has long been a sinecure for party hacks, Brown has championed policies that have won accolades for Clinton from Big Business, traditionally a Republican stronghold. "They have done more for trade than any prior Administration," says Jerry R. Junkins, CEO of Texas Instruments Inc.

Brown's chief legacy has been beefe up export promotion and support f advanced-technology development. I fought successfully to lift cold-war-e export controls on high-tech goods. A Brown created a high-powered advoca team at Commerce to track juicy infi structure and aerospace contracts spots from Brazil to China. A se aboard the Ron Brown Express, as h trade missions are called, has becor the hottest ticket in Corporate Ameri And with persistence and charm, he h helped clinch multibillion-dollar deals f American business.

KEEN ON CUTS. Even so, executives a not rushing to Commerce's defens They have bigger fish to fry. Their No goal is cutting government spending as to balance the federal budget by 20 "The trade piece is dwarfed by the ec nomic benefits of a balanced budget ov the next seven years," says Willard Workman, head of international affairs the U.S. Chamber of Commerce.

Besides, many execs, particular those who have survived corpora downsizings, think a shakeup is ju what the bloated Commerce Dep needs. "Business reinvents itself eve day. There's no reason why the U. government shouldn't do the same says a manager at an American equi ment maker. Ultimately, business hop that out of the GOP gambit to gut Cor merce, a leaner Trade & Industry Dep will emerge.

As for Brown, the issue is wheth he violated any federal criminal laws accepting questionable payments fro business associate Nolanda Hill whi at Commerce. The counsel also will i vestigate whether Brown filed a fals mortgage application in the purchase a Washington townhouse and whethe he intentionally misled government et ics watchdogs by filing inaccurate fina cial disclosure reports.

In a statement, Brown buttressed h assertions of innocence with a long lis of accomplishments as Secretary. In pressive, yes. But irrelevant to the cas against him. He might save the list f a eulogy at Commerce's funeral.

By Amy Borrus in Washingto

HE BALANCED-BUDGET ACKPEDAL

siness sees the ax fall and cries "not my program"

or 20 years, Corporate America has been demanding that Washington get its fiscal house in order by cut- spending and balancing the federal get. Now, House and Senate Repub- ns are taking steps toward doing that. And the business community acking them, right? Well, sort of.

ompanies are deeply split over ether to endorse the massive spend- cuts proposed by the House and ate Budget Committees. Many com- ies are foursquare ind the budget- ancing plans and willing to endure lest hits for the mise of lower rest rates. Others e lip service to cit-cutting but a menacing ca- t: Don't kill my gram.

SE DIVIDED. It's surprise that busi- s is of two minds ut deficit slashing. mers, hospitals, -tech companies, ractors, and drug- ers, among oth- enjoy federal sub- es or contracts in the bull's-eye. eed, of the $1 tril- in proposed GOP , about one-third would be absorbed business. To liberal interest groups— ies for the elderly, children, and the r—that spells opportunity. By unit- with GOP-connected business groups ry over parts of the new Republican l blueprint, they hope to submarine y of the GOP's proposed cuts.

he biggest GOP fear is that business succeed in protecting so many sub- es that voters will conclude that the r are being made scapegoats to the lthy. "We know the traditional Dem- atic constituencies are out to tank effort," says Susan Tanaka of the nmittee for a Responsible Federal Budget. "The question is whether businesses can hold their immediate self-interests aside for an overall package."

Already, there are signs that many can't. Hospital groups, for instance, are lobbying heavily against $250 billion to $300 billion in proposed Medicare savings over seven years. "We're not obstructionist, but the number is too massive. It's too much too soon," moans Thomas A. Scully, president of the Federation of American Health Systems. Scully says his group, which represents for-profit hospitals, would accept $170 billion in cuts. But that would still leave a $100 billion budget deficit.

Big exporters are preparing for battle, too. Archer-Daniels-Midland Co. is lobbying hard to protect export subsidies, as are manufacturers such as Caterpillar Inc. "Don't fire your [government] salesmen," argues Cat's CFO, Douglas R. Oberhelman.

Other companies are struggling to preserve tax breaks from persistent Democratic attacks on "corporate welfare." They have the support of House Ways & Means Committee Chairman Bill Archer (R-Tex.), who will resist most efforts to close loopholes. But they may be angering House Speaker Newt Gingrich (R-Ga.). Says spokesman Tony Blankley: "It's a bit swinish to focus on tax loopholes when a balanced budget could mean lower interest rates."

THE BREAKS. In the end, some tax subsidies could be closed. Some of the biggest, such as the mortgage interest deduction, are off the table for now. But others are more vulnerable. Among them: special breaks for production and use of alternative fuels, a deduction for dividends companies receive for owning stock in another corporation, and a special credit for farmers who use diesel fuel in their trucks.

Giving up such bennies is what makes it tough for many business interests to support a balanced budget. For instance, members of the American Electronics Assn. would lose Commerce Dept. aid for high-tech research (table). The AEA would give that up for deficit reduction. But it will be less willing to abandon other subsidies, such as the $1.2 billion High-Performance Computing & Communications Initiative, a government research effort to promote development of advanced computers and networks. Contractors also face tradeoffs: They may lose work as government construction is cut back, but could win repeal of the despised Davis-Bacon Act, which fixes wages at high levels.

GOP leaders aren't taking any chances with wavering business backers. The

Targeting Corporate Welfare

The GOP has backed off plans to eliminate some $200 billion in tax breaks to Corporate America. But business still could lose billions in subsidies:

AGRICULTURAL SUBSIDIES With all price supports on the block, farmers may take a $14 billion hit. Some farm groups warn that, as a result, Americans won't be able to compete against subsidized foreign farmers.

EXPORT SUPPORTS Nearly $1 billion in export subsidies could be trimmed by 2002. Much of the aid goes to big companies such as Boeing and General Electric to promote sales of planes, power plants, and other products. But smaller companies gripe that they don't enjoy such largesse.

ADVANCED TECHNOLOGY PROMOTION This $445 million Commerce Dept. program funds research that could lead to new high-tech products. Companies that have benefited range from giant General Motors to tiny Nonvolatile Electronics, a memory chipmaker.

trange bedfellows: The prospect of subsidy reductions as created unlikely alliances between interest groups

ANDY SACKS/TONY STONE

House GOP leadership is assembling a coalition of business and conservative social groups, such as the Christian Coalition, to lean on wavering lawmakers. And the GOP has lined up most of Washington's broadbased business lobbies—including the U.S. Chamber of Commerce, the National Federation of Independent Business, the National Association of Manufacturers, and the American Business Conference—behind a balanced budget. "Any of us that sit here and say, 'This is all terrific but...' ought to be taken out and shot," gripes Barry Rogstad, president of the ABC, which represents growth companies.

Will all this be enough to make deficit reduction a winner? Main Street is already behind the concept. For instance, in Ronald Reagan's hometown of Dixon, Ill., businesses are far more hawkish than their favorite son ever was. Says Donald R. Lovett, chairman of AmCore Bank in Rock River Valley, Ill.: "I'd like to see taxes reduced less and the emphasis placed on spending reductions." And while farmers could lose 40% of their crop subsidies, many seem willing to absorb their share, too. Robert B. Johnson, who raises corn, soybeans, and hogs in DeKalb, Ill., says: "We all win if we do things according to market signals." Besides, he adds, "If we can reduce our cost to borrow funds, that's worth a lot more than our government checks."

"STAND-UP TIME." Business has plenty of other reasons to back deficit reduction. It's getting tort reform and massive regulatory relief from Congress. And companies have done fairly well in the deficit wars. Many vulnerable programs, such as the Small Business Administration, avoided deep cuts. Plus, tens of billions of special tax breaks—more important to most companies than direct spending—have been left largely untouched. And while most of the House tax cuts will die, a capital-gains tax cut may survive. "To tell you the truth, we've gotten so much from them, it's been almost embarrassing," says one Washington rep. "Now, it's stand-up time."

The challenge for congressional Republicans is to keep a business coalition together, at least until overall spending targets are locked in. Once congressional committees start translating them into actual cuts in specific programs, the coalition may splinter. But by then, the war over how much to cut spending will be settled. And the budget will be on its way to being balanced.

By Howard Gleckman, with Mike McNamee in Washington, Greg Burns in Chicago, and Kevin Kelly in Dixon, Ill.

EXECUTIVE SUITE

WHO COULD REPLACE JACK WELCH?

GE's chief is on the mend, but the question lingers

On May 14, calls went out to investors and analysts: Less than two weeks after a May 2 angioplasty, General Electric Chief Executive John F. Welch had undergone elective triple bypass surgery to relieve blockage in three arteries.

Welch, the company says, is doing well following the procedure. The 59-year-old executive plans to return to GE's corporate headquarters in Fairfield, Conn., by mid-June and run the $60.1 billion company from home in the interim. He doesn't expect to retire until 2000. But the health problems have exposed a intriguing question at GE, a company he has remade and dominated since taking charge in 1981: What happens when the boss departs? There is no apparent successor to Welch; indeed, there is no clear-cut No. 2 executive.

GE quickly turned away any que tions of succession. Its board has a Ma agement Development and Compen tion Committee, staffed by five outs directors, to address such issues. "Ob ously, in any well-managed compa the board has a plan, but nothing one going to discuss at th time," says a spokeswoman.

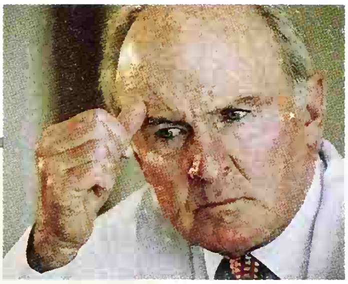
STARS ABOUND. With GE, the list of possib successors is long. U der Welch's manda that GE be No. 1 No. 2 in its marke the heads of its doz business units are a ready leaders in their industries, ea running companies over $1 billion. "T people who reach the layer underneat the top at GE have to be outstanding e ecutive talent," says John F. Johnso chairman of headhunters Lamalie A rop International.

GE Capital Services Inc., under C Gary C. Wendt, for example, is th world's most diversified financial-serv es house, bagging a third of GE's opera ing profits. Robert C. Wright has lifte operating income at NBC Inc. to $5 million from $200 million in 1992. James McNerney Jr., head of Asia-Pac ic operations, is seen by many insi and outside GE as a fast-tracker.

Other contenders include Gary Rogers at Plastics. A hero of GE's ma ufacturing ranks, he instituted at App ances many of the low-cost, high-ou put shop-floor techniques now followe throughout GE. Likewise, James W. Ro ers, another up-and-comer, helped r build Motors & Industrial System through cost-cutting and outsourcing.

Given time, though, another genera tion of leaders may come to the fore. I six years, when Welch is slated to r tire, many of GE's current business un leaders will be over 50—at least fiv years older than Welch was when h took over in 1981. For now, few doub that Welch will be as engaged as ever i his company. But that younger genera tion may be speculating a bit mor about succession—even if the boss isn'

By Tim Smart in New Have



LAURIE SPARHAM/MATRIX

Welch's Court

General Electric executives with a shot at the top job

DENNIS D. DAMMERMAN, 49. CFO and a board member.

W. JAMES McNERNEY JR., 45. Heads Asia-Pacific. A fast-tracker.

ROBERT L. NARDELLI, 47. Runs Transportation Systems.

GARY L. ROGERS, 50. Plastics unit chief, turned around Appliances.

JAMES W. ROGERS, 44. Heads Motors after stints in aerospace, Power Systems, and GE Capital.

JOHN M. TRANI, 50. Heads Medical Systems.

GARY C. WENDT, 53. Runs Capital Services unit.

ROBERT C. WRIGHT, 52. Heads NBC. Used to head GE Capital.

DATA: BUSINESS WEEK

N THE FIRING LINE T DOW CORNING

O Hazleton battles creditors, litigants, lawyers, insurers...

or a guy whose company just filed for bankruptcy protec- , Richard A. Hazle- sounds remarkably xed. No matter that luct-liability lawyers t Dow Corning Corp. 'ork over far more 1 the $2 billion it al- ly has promised to le class-action suits, uding claims from ,000 women with ıst implants. Or that nany as 5,000 other nen have filed individ- lawsuits against the ıpany. "I knew this going to be a tough ıe," says Hazleton. 1 not discouraged."

HAZLETON: *It's in no one's "best interests to bleed this company dry"*

PETER YATES/SABA

'he mounting legal aught prompted the Midland (Mich.) ıpany, once the leading maker of silıe-gel breast implants, to seek reorization on May 15 under Chapter 11 he federal bankruptcy code. It also apulted Hazleton, a little-known mical engineer who took Dow Corn-'s helm nearly two years ago, into limelight.

CK STUDY? Until now, the 52-year-old cago native has kept a low profile, ing the company's lawyers fight its tles in the courtroom. Now, Hazleton denly is playing front man, aggresely defending Dow's implants against rges that link them with auto-immune ease. More crucial than polishing Dow ning's tarnished image, though, will Hazleton's tricky balancing act as metor. As Dow Corning wends its way ough reorganization, Hazleton must to placate a bankruptcy judge, disntled creditors, angry breast-implant gants and their lawyers, anxious emyees, and balky insurers.

Such maneuverings "were nothing I er learned about in chemical engiering school," Hazleton admits. He l better be a quick study. A bevy of intiffs' lawyers, including Cincinnati orney Stanley Chesley, packed the irtroom of U.S. Bankruptcy Judge thur J. Spector on May 17 as he ırd the first round of motions on Dow rning's filing. They want to use their ide perch on a creditors' committee to block any reorganization plan that doesn't provide adequate compensation for their clients. Wendell H. Gauthier, a New Orleans plaintiff lawyer involved in the settlement, says their huge legal claims will give implant litigants plenty of clout in bankruptcy court. "We think the victims may fare better from Dow Corning because we'll be involved," he says.

Hazleton also faces intense pressure for Dow Corning to cough up more cash for the so-called global settlement in the class action. U.S. District Court Judge Sam C. Pointer Jr. said May 1 that the $4.2 billion fund, established 14 months ago by Dow Corning, Baxter International, Bristol-Myers Squibb, and other implant manufacturers and distributors, is dramatically underfunded.

Despite the long odds, "we would like to see a global settlement hold together," Hazleton says. Certainly, it's the company's best hope for settling the bulk of the claims against it en masse. But, he insists, "we don't have any more money to contribute." Dow Corning has already pledged $2 billion over 30 years, with a $275 million installment due soon after the settlement is completed. Conceivably, the bankruptcy court could order Dow Corning to pay more, based on the company's recent healthy results: Profits were up 33% in the first quarter, to $49.5 million, on record sales of $612 million. But to keep making payments to plaintiffs, "we have to remain a healthy company," Hazleton says. "It's not in anyone's best interests to bleed this company dry."

All of this is a far cry from what Hazleton expected in 1965, when he joined Dow Corning after graduating from Purdue University. He migrated from engineering into finance jobs, and in 1983 took charge of the company's big Midland factory. In 1991, he went to Europe to streamline the operation. Those were also "uncommonly difficult" economic times there, says Keith R. McKennon, the former Dow Corning chairman who chose Hazleton to be his successor: "Dick has the ability to make the hard decision."

So far, too, Hazleton has effectively negotiated what insiders call a tense relationship with Dow Corning's joint venture owners, Dow Chemical Co. and Corning Inc. Hazleton responded to his board's growing anxiety by quietly building a consensus for a bankruptcy filing. "He responded to us with calm and objectivity—always in short supply in something as contentious as this," says Dow Chemical Chairman Frank P. Popoff. Can Hazleton stay so calm through what is expected to be at least two years of bankruptcy proceedings? "It's not going to be fun or easy," he says. In that, certainly, he is not mistaken.

By Kathleen Kerwin in Detroit, with Linda Himelstein in New York

THE IMPLANT IMPASSE

Claims and lawsuits against Dow Corning:

THE PLAN Dow Corning, Baxter International, and others created a $4.2 billion fund to pay off claims from a class-action settlement. Dow agreed to kick in up to $2 billion over 30 years. Women with implants had the option of skipping the class-action settlement and suing on their own. Dow Corning set aside $241 million as a reserve against such lawsuits.

THE RESULT Of more than 1 million women with silicone breast implants, about 410,000 registered claims against the class action—far more than expected. A Federal judge overseeing the settlement in April declared the fund inadequate. Dow Corning says it also currently faces 3,000 to 5,000 individual lawsuits in the U.S. Its original reserve now looks inadequate as well.

CONTROVERSIES

WHO IS ALICIA MUNNELL? AND WHY IS SHE DRAWING FIRE?

The GOP already is attacking Clinton's probable pick for the Fed

Presidential nominations to the Federal Reserve Board are normally humdrum affairs. In fact, Congress hasn't rejected a central-bank nominee in more than eight decades. But this is the Clinton White House, which seems unable to fill any job easily. And that creates uncertainty for the Clintonites' expected choice for a Fed opening: Alicia H. Munnell.

Munnell, Assistant Treasury Secretary for Economic Policy, hasn't yet been formally nominated to replace Governor John P. LaWare. But Senate Republicans already have launched a preemptive strike against the 52-year-old economist, charging that she is too liberal for the job. On May 10, 10 GOP senators warned Clinton to appoint a candidate who will focus on one issue: price stability. That was a thinly veiled attack on Munnell, whom Republicans believe to be an inflation dove. "It was a wake-up call to the White House," says Senate Banking Committee Chairman Alfonse D'Amato (R-N. Y.), whose panel handles Fed nominations. Republicans are "very concerned that she may not have a proper appreciation for the dangers of inflation," he adds.

Another GOP gripe: Joint Economic Committee Chairman Connie Mack (R-Fla.) blasts Munnell for her past advocacy of taxing pension assets. Given her liberal positions on pensions, taxes, and other issues, he says, "I don't think she can make it" through confirmation.

REVISIONIST HISTORY? Munnell isn't talking, but her Administration backers argue that after 20 years as an economist at the Federal Reserve Bank of Boston, she knows well the evils of inflation. But they're hampered in defending her because as a loyal Fed soldier, she never spelled out her personal views on managing the economy. "There isn't a paper trail of her views on monetary policy," says a Treasury colleague. Charges another: "Some conservatives are doing with her what gun lovers did with Waco. They're creatively rewriting her history."

Munnell made her reputation at the Boston Fed with studies of wealth distribution, savings, and retirement policies. She has criticized private pension plans as tax breaks for "a relatively privileged subset of the population" that don't increase national savings. In a 1992 article, she advocated imposing a tax on both accrued benefits and future contributions—and using that revenue windfall to cut the budget deficit or pay for education or infrastructure projects.

Munnell gained additional notoriety with a groundbreaking 1992 study that found systemic racial discrimination in mortgage lending among Boston banks. After reviewing 4,500 loan applications made in 1990, she and her co-authors concluded that blacks and Hispanics were 60% more likely to be denied mortgage loans than similarly qualified whites. The study served as a catalyst for greater scrutiny of bank lending practices by federal regulators. But it has come under fierce attack from conservatives and bankers, who say that the data used were flawed and that the discrepancies in lending rates may have been caused by other factors. "It troubles me that poor research would be the basis for an all-out attack on an industry," says James Chessen, chief economist for the American Bankers As

Little wonder, then, that banks seem intent on persuading Senate Republicans to block Munnell in favor a banker. After all, they note, LaWare was the only banker on the Fed board, and Chairman Alan Greenspan is said prefer an industry representative.

OPTIONS. Munnell's fate may ride n whether Clinton can stomach another bruising confirmation fight on the heels of the battle over Surgeon General designate Henry Foster. The Administration already has had problems filling the seat: Its first choice, North Carolina banker John G. Medlin Jr., declined personal reasons, leaving Munnell s the only clear candidate. But as the Clintonites drag out their deliberations, conservative attacks on Munnell may give them pause. Officials admit they may have to reconsider the nomination, though they have no backup.

Even if a fight erupts over her nomination, Munnell could yet win out. After all, the GOP raised similar qualms at her 1993 Treasury confirmation hearing and she was approved anyway. But if Senate Republicans make good on their threats to staunchly oppose her, her nomination will embroil the Fed in a rare partisan fight. That could portend even nastier battles next year, when the terms f Greenspan and Vice-Chairman Alan Blinder expire. The Munnell controversy may prove to be only a warmup.

By Dean Foust and Mike McNam, with Mary Beth Regan, in Washingt

RICHARD BLOOM/SABA

TOO LIBERAL?

GOP gripes about Alicia Munnell:

MORTGAGE DISCRIMINATION Munnell co-authored a 1992 redlining study while at the Boston Fed that used mortgage data to argue that Boston banks were discriminating against minorities. The study resulted in closer federal scrutiny of lending practices and legal action against banks.

TAXING PENSION ASSETS In 1992, Munnell proposed lowering taxes with a one-time tax on pension funds, plus an ongoing tax on future contributions. She argued that private pension programs are a tax shelter for the affluent.

ECONOMICALLY TARGETED INVESTING Republicans charge that Munnell wants the government to force pension funds to invest in projects with social objectives. But Munnell-backers say she always has opposed trading lower returns for social considerations.

COMMENTARY

By Catherine Yang

IMMIGRATION: YOU CAN'T TEST FOR DRIVE AND AMBITION

PLEDGE TIME: *Critics overstate the slide in newcomers' skills*

Huddled masses, beware. Americans are fed up not only with illegal immigrants but with legal ones, too. As Congress revs up the immigration debate again, some would-be reformers are pressing for an overhaul of U. S. admissions criteria. They want to cut down on the number of newcomers to the U. S. on family-unification visas by creating a point system that measures applicants' potential for contributing to the economy. The criteria: education, job skills, and English-language abilities.

At first blush, skills-based admission sounds appealing. After all, today's high-tech economy is a far cry from the turn of the century, when immigrants helped build the nation by manning assembly lines, constructing railroads, and toiling in the mines. These days, the U. S. needs highly trained workers to fuel a globally competitive, knowledge-based economy. "We could create a hundred Silicon Valleys in the U. S. if we had a smarter immigration policy," says Stephen Moore of the libertarian Cato Institute.

Using a similar argument, Alan Simpson (R-Wyo.), chairman of the Senate subcommittee on immigration, plans to introduce a bill this summer that would establish a point system in the U. S. It would mimic procedures employed by two of the world's largest immigrant nations, Canada and Australia, which admit about half of their newcomers using the point system.

ETHNIC SCREENING? But in the U. S., such wholesale change is unnecessary. Today's immigrants aren't lacking skills and education, as detractors claim: By some measures, they're better equipped than U. S. natives. Besides, negotiating the measurements used to gauge potential success in America would hardly be a politically tenable process.

More important, the motivation for skills-based reform seems to have less to do with worries about the employability of newcomers than with their potential for cultural assimilation. "Family reunification has overwhelmed our system," complains Simpson. "We have people in the U. S. without English skills, who don't come out of their enclave."

If the reformers were truly indifferent to national origin, they would address such concerns through programs that encourage Americanization, such as special English classes, rather than screening out non-English-speakers at the door. Says Cecilia Munoz, an immigration advocate at the National Council of La Raza: "In some circles, a skills-based system is a proxy for white vs. nonwhite immigrants."

Economic concerns don't hold much water either. True, about 80% of legal U. S. immigrants now come on family-reunification visas, and 87% come from Latin America and Asia. But family-based immigrants aren't necessarily unskilled. An Urban Institute study, which screened out newcomers from such countries as Mexico and El Salvador because they deliver the most illegal aliens and refugees, found that 74% of remaining adult legal immigrants had high school diplomas, vs. 77% of those born in the U. S. Some 33% had college degrees, vs. 20% of native-born Americans.

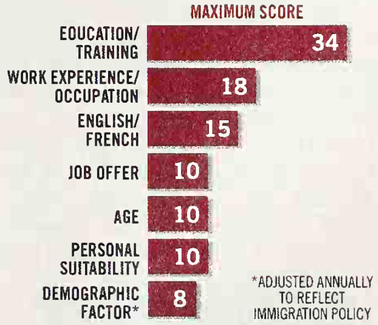
ENTREPRENEURS. Despite the handwringing about unassimilable masses, moreover, the evidence shows that today's immigrants aren't so parochial. The 1990 census found only 28% of immigrants arriving that year lived in households where no adults spoke fluent English. And although immigrants start with lower earnings, their median wage growth measured at 6.7% in 1988, compared with 4.4% for workers born in the U. S., according to a study by economists Harriet Orcutt Duleep and Mark C. Regets.

Immigrants still appear to be bringing the immeasurable traits needed for success in the U. S.: drive and ambition. Entrepreneurship rates run as high as 18% for Korean Americans and 15% for Greek Americans. Overall, the 7.2% self-employment rate among immigrants edges the 7% rate for the U. S.-born. "I'm not sure we could hit upon the right proxies for [such ambition] in a point system," says New York University sociologist Guillermina Jasso. Rather, as long as the U. S. can continue to attract highly motivated newcomers who will work hard to reshape themselves into Americans, the nation will gain from their presence—no matter where they come from.

Yang reports on legal issues from Washington.

BARRIERS TO ENTRY

In 1993, almost half of Canada's immigrants entered on a point system, having scored a total of 70 points or more in the following areas:



*ADJUSTED ANNUALLY TO REFLECT IMMIGRATION POLICY

DATA: DEPARTMENT OF CITIZENSHIP & IMMIGRATION OF CANADA

PHOTOGRAPH BY UPI/BETTMAN NEWSPHOTOS; CHART BY ALBERTO MENA/BW

PHOTOGRAPH BY DAVID R. FRAZIER. CHART BY ERIC HOFFMANN/BW

STRATEGIES

WHY 'MR. SPUD' IS EYEING MORRISON KNUDSEN

Can J.R. Simplot's billions rescue an Idaho institution?

Retirement doesn't mean much to J.R. Simplot. The 86-year-old Idaho billionaire who made his fortune selling frozen french fries to McDonald's Corp., stepped down from his post as chairman of his $2 billion agribusiness, J.R. Simplot Co., in April, 1994, but he hasn't slowed a whit. Since then, he has agreed to build a luxury hotel, developed a Boise subdivision, and is believed to have engineered a management shakeup at Micron Technology Inc., the Idaho chipmaker in which he has a 21.5% stake. But his biggest feat may be yet to come: rescuing troubled Morrison Knudsen Corp.

On May 15, Simplot met with Morrison Knudsen's new chairman, former Chrysler Corp. Vice-Chairman R. Steve Miller Jr., to discuss a reverse merger plan cooked up in February by former MK executive Jack K. Lemley. Lemley, 60, who headed construction of the Channel Tunnel as chief executive of Transmanche-Link until 1993, proposed that he and Simplot invest in MK and merge it with another publicly traded construction and engineering company, which he won't name. The combined company would keep the name Morrison Knudsen and remain in Boise. Lemley would be CEO, at least initially.

In the confusion after the ouster of William J. Agee as MK's chief executive on Feb. 9, no one responded to the Simplot-Lemley proposal at first. And the May 15 meeting, while upbeat, was inconclusive. But no one doubts that Simplot possesses the cash to rescue Morrison Knudsen and keep it in Boise. The proposed merger, says Lemley, "would preserve a company that has been an institution in Idaho and in the construction-engineering business for many decades." A longtime Boise resident, Lemley has known Simplot for years and is married to Simplot's former daughter-in-law.

Morrison Knudsen could use some strong management. It is on its second chairman and second CEO since the ouster of Agee, and some board members have been pushing for faster execution of its plan to pay off debt by selling assets. "The company would have been better off if it had allowed Agee to be the bridge between the troubled times and bringing in a new chairman. Agee could have been the one to accelerate the asset's sales," says MK board member John W. Rogers Jr., president of Ariel Capital Management Inc. in Chicago.

WHITE KNIGHT?

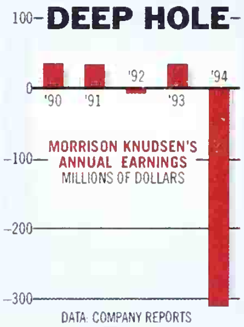
Simplot aims to invest in MK, merge it with another construction company, and keep it in Boise

Despite a May 31 deadline to repay loans, MK executives believe their banks will give them some breathing room to avoid bankruptcy. But MK nonetheless is starting to sell sets at a discount. May 15, its rema ing stake in MK G went to Leuca National Corp. $22.5 million in ca That's 25% below stock's market va ation and 47% bel a previous offer t fell through. MK is close to inkin deal to sell its W ern Aircraft subsidiary.

But to raise the $150 million it nee to stay afloat, MK may have to dig de er than the "noncore assets" it list for sale in March. Its most press headache is its railcar business, wh caused most of the company's estimat $310 million in losses in 1994. An spokesman says the company aims fix the transit operation through a st tegic partnership. Two of the likeli buyers, Canada's Bombardier and G many's AEC, say they aren't interested the unit.

FAT WALLET. MK also hopes to keep su core assets as its construction, engine ing, and environmental and mining bu nesses, says the spokesman. All are pr itable. "[MK now is] cash flow-posit all around except for transit," says K neth Hackel, president of Systematic nancial Management, a Fort Lee (N. based investment company. "If th never got into the rail-transit busine the stock would be in the 40s now." stead, MK shares trade at about 8. Ha el blames Agee. "Their problems we man-made, and we kn who that man was," says. "They can be solve

DEEP HOLE



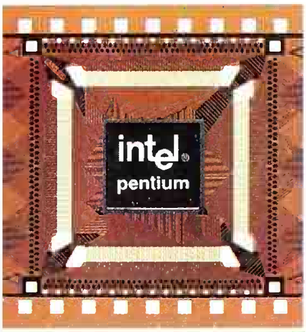
MORRISON KNUDSEN'S ANNUAL EARNINGS
MILLIONS OF DOLLARS

DATA: COMPANY REPORTS

Is J.R. Simplot the m to fix MK? He sat on board until he turned and "he's always had a s spot in his heart for Mor son Knudsen," says Gord C. Smith, a longtime as ciate. At 86, Simplot h had to give up skiing a horseback riding. But jus few weeks after his seco hip replacement in April, he was back the office every day, driving to work his white Lincoln Continental with t MR SPUD license plates. "He's a cha er, a vanishing breed of entrepreneu says A. Dale Dunn, another close as ciate. "He gets a new idea every day two." And for J.R. Simplot, even in tirement, ideas tend to result in actio

By Dori Jones Yang in Seattle, w Richard A. Melcher in Chicago

MOBILE PENTIUM.



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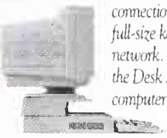

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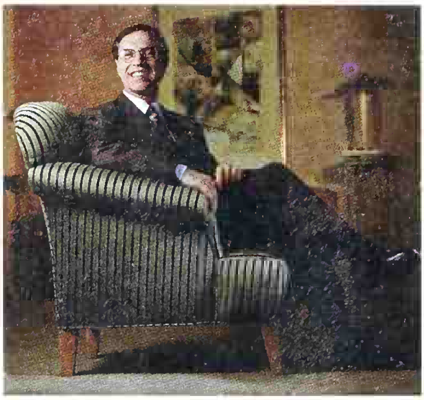
STRATEGIES

ROOM AT THE TOP FOR WESTIN?

A new CEO and new owners have grand expansion ideas



BARTELS: *The German-born veteran hotelier has "limitless enthusiasm"*

The job search was weeks old when it took a decisive turn at New York's Waldorf-Astoria. As investors looked on, CEO candidate Juergen Bartels dropped to his knees and proffered a rose. The bankers were at first astonished, then listened attentively as Bartels explained how he used the technique to thank travel agents for directing business to Radisson Hotels International Inc. Barry S. Sternlicht, president of Starwood Capital Group, was won over: "He has limitless enthusiasm and knows how to fire up a sales force."

Both assets will be in hot demand as Bartels takes on what one hotelier describes as "one of the toughest jobs in the industry." On May 15, when Starwood, along with Goldman, Sachs & Co. and their partners, closed on the purchase of the 80-unit Westin Hotel Co. chain, they chose Bartels, 54, as its CEO. They appear to be getting Westin at a bargain price: They're paying Japan's Aoki Corp. $537 million for it, less than 18 months after a $708 million deal with another buyer fell through. Aoki itself paid $1.53 billion for Westin in 1988.

TARNISHED. Rivals say Westin's image and profitability have slipped during the two years it has been shopped around. The buyers, who also include the Edward Thomas Cos. and Nomura Asset Capital Corp., have committed $50 million more to the chain. And Goldman Sac Vice-President Stuart M. Rothenbe says future capital from the group m be "fairly limitless." Says Bartels: " want aggressive high-quality growth.'

Bartels, a native of Germany, ai to add 60 hotels to Westin over next five years. He'll use some str gies from his days as CEO of Carls Cos.' Carlson Hospitality Group I where he helped expand Radisson fr 25 hotels to 302 by acquiring new m agement contracts and pushing i franchising, as well as forging clo ties with travel agents. His new boss at Westin also may buy other chains

Still, Westin faces plenty of compe tion in the market for first-class h telry. Occupancy and room rates fina are climbing after years of overbui ing. But revived rivals, such as Hya Marriott, and Sheraton, are on t prowl for new properties and manag ment contracts, too. In a pinch, Bart may have to fall back again on the woo-'em-with-a-rose technique.

By Richard A. Melcher in Chica

MAGAZINES

THE IMPORTANCE OF BEING SOLVENT

After 28 years, *The Advocate* is nearing financial viability

STAR CLOUT Yarbrough and Watters traded newsprint for glossy pages with big-name writers and interviews with top celebrities

It started in 1967 as an underground newsletter, its mimeographed pages dispatched to L.A.'s gay community by a nascent band of journalists who worked together in the mailroom of a local TV station. Since then, *The Advocate* has become a standard-bearer of gay-oriented journalism. And it has consistently lost $1.5 million a year.

Now, *The Advocate* finally may be approaching financial viability. Since five investors, including publisher Sam Watters, bought the ailing publication in 1992, paid circulation has rocketed 50%, to 72,000. Mainstream advertisers such as Virgin Atlantic Airways and Hamilton watches are expected to raise the biweekly's ad revenue fivefold by yearend.

The Advocate is even doing deals. On May 5, its parent, Liberation Publications Inc., announced its purchase of Alyson Publications Inc., a gay and lesbian publisher of 24 to 28 books a year—among them the controversial *Heather Has Two Mommies*. Alyson should produce $15 million in revenue by 1996, Liberation says.

The force behind *The Advocate*'s turnaround is Watters, 41, a Yale-educated art historian. Prior publishing experience: zip. Yet he has moved quickly to remake *The Advocate*. By the end of his second day on the job, Watters had cut his staff to 44 from 78. With editor Jeff Yarbrough, 33, he abandoned *The Advocate*'s newsprint for glossy paper and color and recruited big-gun contributors such as Larry Kramer and Tony Ku ner to author interviews w top stars such as k.d. lang, T Hanks, and Madonna.

FAT WALLETS. Not everyone happy with the chang "They've turned it into more a *People* magazine," says Ri ard Labonté, general manag at A Different Light booksto in San Francisco. But advert ers have welcomed the facel which included spinning off t magazine's racy classified a One big catch was John Walker Black Label scot which bought space in the April iss The attraction: *The Advocate*'s dem graphics—educated professionals, ty cally in their late 30s, whose househ income averages $72,000. As for sex orientation? "Who cares?" says Mich Chaney at Avrett, Free & Ginsbe Johnnie Walker's ad agency. "Alter tive lifestyles have become part of ma stream America."

Other gay-oriented magazines a gaining readers and advertising as w *The Advocate* faces plenty of compe tion from sometimes saltier publicatio such as *Ten Percent*, *Genre*, and *Ou* which won an ad from General Mot Corp.'s Saturn division for its May iss No more mimeographs for this crowd

By Gabrielle Saveri in Los Ange

(TOP TO BOTTOM) PHOTOGRAPHS BY ALEXANDER MARES-MANTON, AMY ETRA

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Tower Group International
World Aviation Directory

In Business This Week

EDITED BY KEITH H. HAMMONDS

WHITEWATER AL RIDES AGAIN

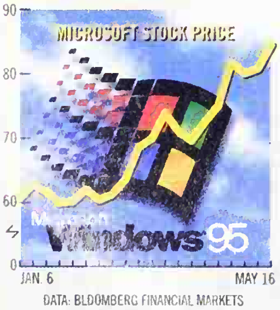
ALFONSE D'AMATO. WHITEWATER. A match made inevitable by last November's GOP landslide. On May 17, the Senate approved 96 to 3 a measure introduced by Banking Committee Chairman D'Amato (R-N. Y.) creating a special panel to take over the Whitewater probe.

D'Amato will head the investigation, which promises to examine the Clinton Administration's contacts with federal officials involved in the original Whitewater probe as well as the financing of the President's 1990 Arkansas gubernatorial campaign. Senate hearings focusing on the handling of documents in Deputy White House Counsel Vincent Foster's office following his death will resume later this summer.

CLOSING BELL

CROCODILE TEARS

Microsoft has its trials: The Justice Dept. is blocking its proposed $2 billion merger with Intuit. On May 15, Executive Vice-President Mike Maples announced he would retire. But cry not for Bill Gates: Microsoft's shares are up 40% in three months. Its legal hassles have been overshadowed by hopes for Windows 95, the new operating system due to debut in August. And on May 16, Microsoft signed a vague but promising deal with NBC to create programming for interactive TV.



DATA: BLOOMBERG FINANCIAL MARKETS

JOHN S. ABBOTT

SPANGLER WINS NATIONAL GYPSUM

FORMER CHAIRMAN C. D. SPANGLER has at last prevailed in the rancorous battle to take control of National Gypsum, the nation's second-largest plasterboard maker. Spangler's $1.2 billion bid scared away a competing offer from BPB Industries and won over Lafarge Coppée, the big Gypsum investor that previously had opposed a takeover. Now, however, comes the hard part. Gypsum is spinning off more than $100 million in cash per year. But the officers of a trust set up to protect the company against asbestos liability complain that the trust is underfunded. And the cost of upgrading the company's 18 U. S. plants could run beyond $500 million, analysts say.

BUSY SIGNAL FOR TELECOM REFORM

WILL THE WORLD EVER SEE telecommunications reform? Can it stay awake that long? On May 17, the House Subcommittee on Telecommunications & Finance voted 24-5 to send its overhaul measure on to the full Commerce Committee. But behind the scenes, intense negotiations continue over key issues, from deregulating cable rates to how quickly to allow Baby Bells into long-distance service. The legislation is expected to pass the full House as early as June—but the Senate is another matter. A bill crafted by Senate Commerce Committee Chairman Larry Pressler (R-S. D.) is under attack, and Congressional insiders say that the the odds of passage are no better than 50-50.

HEADLINER: CHARLES SANFORD

A MERGER FOR BANKERS TRUST?

Bankers Trust is in for still more interesting times. After a year of derivatives-related client lawsuits and just weeks after reporting a $157 million loss for the first quarter of 1995, Chairman and CEO Charles S. Sanford Jr. announced on May 16 that he will resign in 1996, when he turns 60.

Who will replace him? Instead of turning immediately to President Eugene Shanks, the Bankers' board will conduct a wide-ranging search. Sanford says it's simply "too early to have two CEOs." But early speculation is on a financial luminary such as Gary Wendt, head of General Electric Capital, or J. P. Morgan Vice-Chairman Roberto Mendoza.

But some analysts say the board's action may open the door to a merger. Sanford won't comment. With the board exploring all options, "it's a plausible read that...the company could be for sale," says Merrill Lynch analyst Judah Kraushaar. Much of Bankers' core derivatives business is out of fashion, but global custody and investment management operations might tempt a buyer. Its stock is at 58¼, just 116% of book value.

By Kelley Holland

THE AIR FORCE BACKS GE ENGINES

SCORE ONE FOR GENERAL Electric. Eleven months after allegations surfaced that faulty electrical bonding might cause a safety problem in thousands of GE-made aircraft engines, the Air Force has concluded there isn't any safety concern. Still pending: a suit from a GE engineer charging that many engines didn't meet required U. S. contract specifications, which the company is contesting. The Justice Dept., which joined the suit to protect government interests, will decide by May 30 how aggressively to pursue the case.

CLINTON PLANS AN OSHA OVERHAUL

BOTH THE ADMINISTRATION AND Republicans think the Occupational Safety & Health Administration is too heavy-han ed. (Business tends to thin that's an understatement.) B while GOP budgeteers want t slash funding, the Whit House thinks reforms will d the trick. On May 16, Pres dent Clinton announced a OSHA overhaul that would c penalties for employers wh fix job-safety violations. It als would reduce the number inspections at companies wit good safety records, and ta get enforcement toward con panies with high injury rate

ET CETERA . . .

- Two big TWA creditor want a prepackaged ban ruptcy filing for the airline
- Time Warner and AT& may team up to offer loc and long-distance calling.
- Co-founder Jane Hirsc resigned as CEO of trouble Copley Pharmaceuticals.
- *The Washington Post* wi spend $250 million to go al color by 1998.

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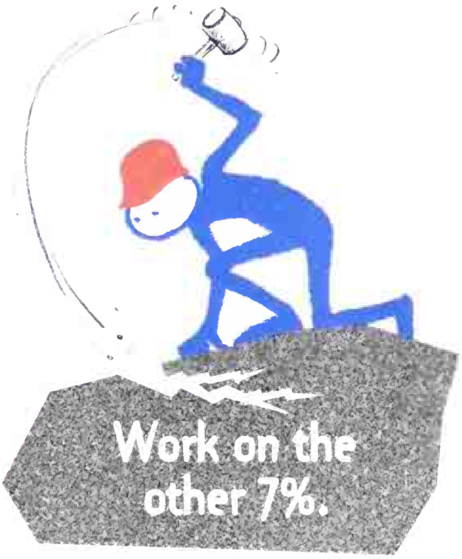

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Washington Outlook

EDITED BY OWEN ULLMANN

PHIL GRAMM'S CHILLY NEW ENGLAND SPRING

On a sunny Mother's Day, the reserved Yankees of Rindge, N.H., politely sipped punch and nibbled cookies in their tiny town hall as Senator Phil Gramm railed against big government. The Texas Republican vowed to complete the Reagan Revolution by cutting taxes, slashing spending, forcing welfare recipients to work, and letting states criminalize abortion. "I'm shootin' with real bullets," he drawled. Clarence May, a retired phone company worker, nodded in approval: "I like what he's saying—but he's got an uphill climb."

Gramm is hearing that observation a lot as he campaigns for the GOP Presidential nomination: Party faithful like the message, but aren't ready to embrace the messenger. Gramm has raised an awesome $14 million and is the Senate's loudest conservative voice on issues from deficit reduction to blocking Surgeon General nominee Henry Foster. Yet he is stagnant in the polls, with about 10% of the vote, and is confounded by problems that money can't solve.

LONE STAR LONG SHOT: *Painful polls*

BROOKS KRAFT/SYGMA

THE TWANG THANG. The man crowned by Washington insiders as the nominee-in-waiting a few months ago is watching his base splinter. He has lost ground to Senate Majority Leader Bob Dole, who has veered to the right, and firebrand commentator Patrick J. Buchanan, who is exceeding expectations. Religious conservatives complain that PhD economist Gramm talks too much about economics and not enough about God. Their worries were only reinforced by Gramm's May 17 admission that more than 20 years ago he invested $7,500 in a limited partnership to produce an R-rated movie titled *Beauty Queens*, which apparently was never made. His campaign denied the Texan was an investor in a company that produced porn movies.

Gramm's troubles come through clearly in the Granite State. Some laconic voters are put off by his aggressive personality and thick accent. GOP Governor Steve Merrill has him on the defensive for stumping in Delaware and Arizona—states th have tried to steal New Hampshire's spotlight as the first- the-nation primary. "There's something about him that peop don't like," says GOP strategist Mark Goodin.

Recent evidence? The May 16 New Hampshire Poll p Gramm at 7%, trailing Dole (44%) and Buchanan (13%). Co cedes Claremont lawyer Robert Morgan, a Gramm fan: "Ne Hampshire likes to pick winners. Mr. Gramm's problem is t drumbeat of 'He can't win.' "

Some GOP veterans already are comparing Gramm's moni campaign to the failed White House que of another Texan: former Treasury Secr tary John B. Connally, who spent $13 m lion nationally but won just one delegate 1980. Still, it's too early to write Gramm. What he lacks in charm, Gram hopes to make up by capitalizing on h button issues. In antitax New Hampshi, for example, he contrasts his steady su port for tax cuts with Dole's votes for t hikes. And Al Rubega, president of t powerful Gun Owners of New Hampshi, says Gramm's uncompromising pro-g stance "plays fabulously well" there.

To appeal to religious conservativ Gramm has enlisted GOP pollster Frank Luntz, who works with Pat Robertson's Christian Coalition, develop moral themes. He also drafted two former aides of e Vice-President Dan Quayle, a favorite of social conservativ Recent speeches at Jerry Falwell's Liberty University the Heritage Foundation quoted the Scriptures and Ada Smith, winning raves from religious activists.

Gramm believes his vision of lower taxes and less gover ment will eventually take hold. "I don't always make a gre first impression," he admits, "but I wear well." That may true. But will voters bother going on a second date?

By Richard S. Dunham in Rindge, N.

CAPITAL WRAPUP

LIVING DANGEROUSLY

▶ If Social Security is the third rail of politics, why do Senators Bob Kerrey (D-Neb.) and Alan K. Simpson (R-Wyo.) keep dancing on the tracks? Kerrey headed a panel that proposed entitlement cuts. And Simpson vowed to probe the American Association of Retired Persons, Social Security's champion. Now, they're pushing a bill to let some payroll taxes be diverted into IRA-type accounts—raising fears their bravura will prod Congress to consider privatizing the system.

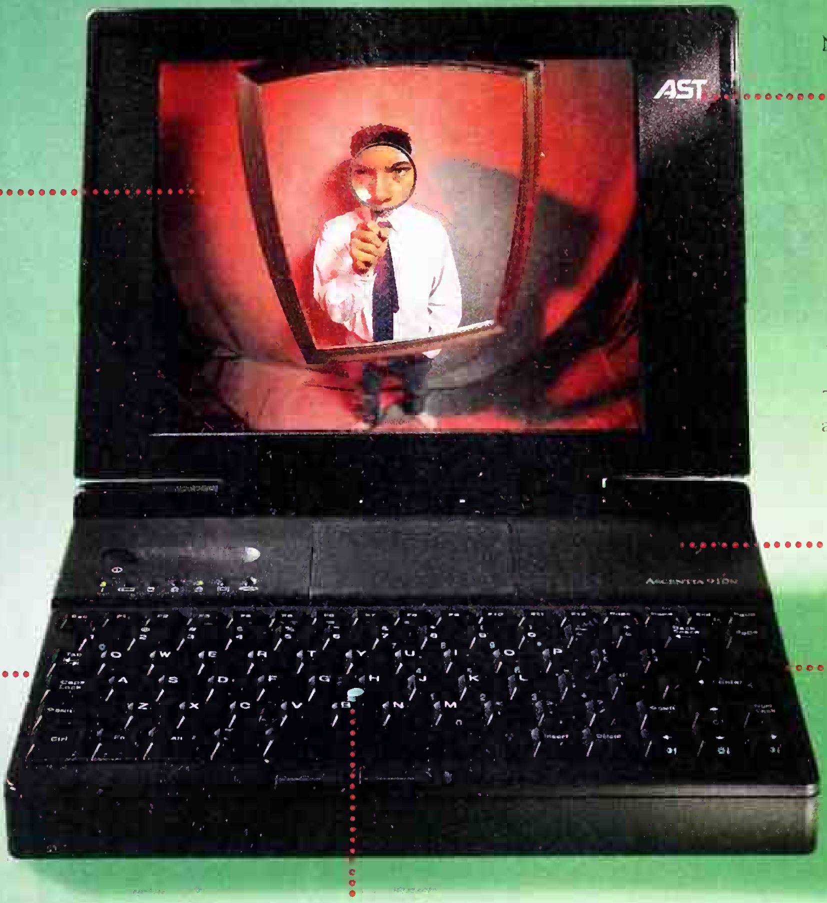
QUAYLE'S QUIET NOD

▶ Officially, former Vice-President Dan Quayle is neutral in the '96 GOP Presidential race. But friends say Quayle is privately promoting Senate Majority Leader Bob Dole (R-Kan.). The ex-Veep isn't going public so as not to offend a fellow Hoosier, Senator Richard G. Lugar, a long shot for the nomination. The main reason for backing Dole, according to confidants: The 71-year-old Kansan likely would be a one-term President, so Quayle could run in 2000.

BALDRIGE GOES PRIVATE?

▶ The coveted Malcolm Baldrige Awards, administered by the Commerce Dept., may be headed for privatization. The awards have been a h with business since being established in 1987. But House and Senate GOP budget-balancing plans do away with $3.4 million to administer the program, which honors managerial excellence and technological innovation. Commerce insiders say the awards are so popular that business probably will pick up the tab.

WHAT TO LOOK FOR IN A TOSHIBA, COMPAQ AND IBM NOTEBOOK.



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Standard memory, you ask? The 910N features 8MB RAM, compared to the 4MB RAM in the IBM ThinkPad 755C.

With all the choices out there, you're probably asking yourself, "What to buy? What to buy? What to buy?"

Well, maybe this will help. Pictured above are a few comparisons to illustrate how the new AST Ascentia 910N stacks up against the field.

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JAPAN

JAPAN'S AUTO SHOCK

Tariffs and the Super Yen spell trouble

In the vast pink-toned Otori Room at the ANA Hotel in Tokyo on May 15, newly revamped Corollas gleamed under photographers' lights. Toyota Motor Corp. executives beamed and schmoozed with swarms of Japanese journalists, cooing over the new Japan-only models and chuckling over Peter Falk doing his famous Columbo shtick for the new Corolla ad campaign. But the rosy scene was as much an illusion as Falk's appearing to speak Japanese. Behind their smiles, the assembled guests were worried about the future of the Japanese auto industry.

As recently as January, Japan's carmakers were breathing sighs of relief. Domestic sales had picked up in the second half of 1994, ending one of the worst downturns in Japanese auto history. The cost-cutting benefits of parts sharing and model reduction were kicking in, and depreciation from heavy capital investments in the late '80s was helping bottom lines. Even Nissan Motor Co., hard hit by the Mexican debacle, was on the road to recovery. It seemed the worst was over.

Now the brutal vise is tightening once again. Washington's May 16 announcement of 100% tariffs on 13 luxury models, combined with a Super Yen of about 86 to the dollar, could accelerate a shakeout in the Japanese auto industry. At the least, Japan's 10 vehicle manufacturers will be forced to move more rapidly to expand in North America, Asia, and Europe while slashing costs at home. Nissan has closed a Japanese auto plant for the first time in postwar history, and Toyota executives have publicly raised the possibility of shutting down one of theirs. Mighty Toyota may even break with tradition and lay off workers.

GAME OF CHICKEN. There will surely be more pain. Japan's domestic industry still has too many employees, too many models, and too many suppliers. With production of about 11 million vehicles this year, analysts argue that is about 4 million too many, given falling exports and slow growth at home. Some experts believe not all of Japan's auto makers will remain independent, as stronger players absorb the weaklings (table). "Not all companies may survive," says Toshiaki Taguchi, a director at Toyota. The restructuring also could mean Japan's auto parts supply networks and distribution channels will be dominated by more hardy companies.

The auto shock will persist no matte what happens in the game of chicke being played out between the Clinto Administration and the government Prime Minister Tomiichi Murayam Washington believes the 100% tariff which would price Lexus and Infini out of the U.S. market, will force th Japanese to open their market to mo U.S. autos and auto parts. "This is pre ty clear-cut," says U.S. auto analys Chris Cedergren. "The tariffs have bee designed to force concessions."

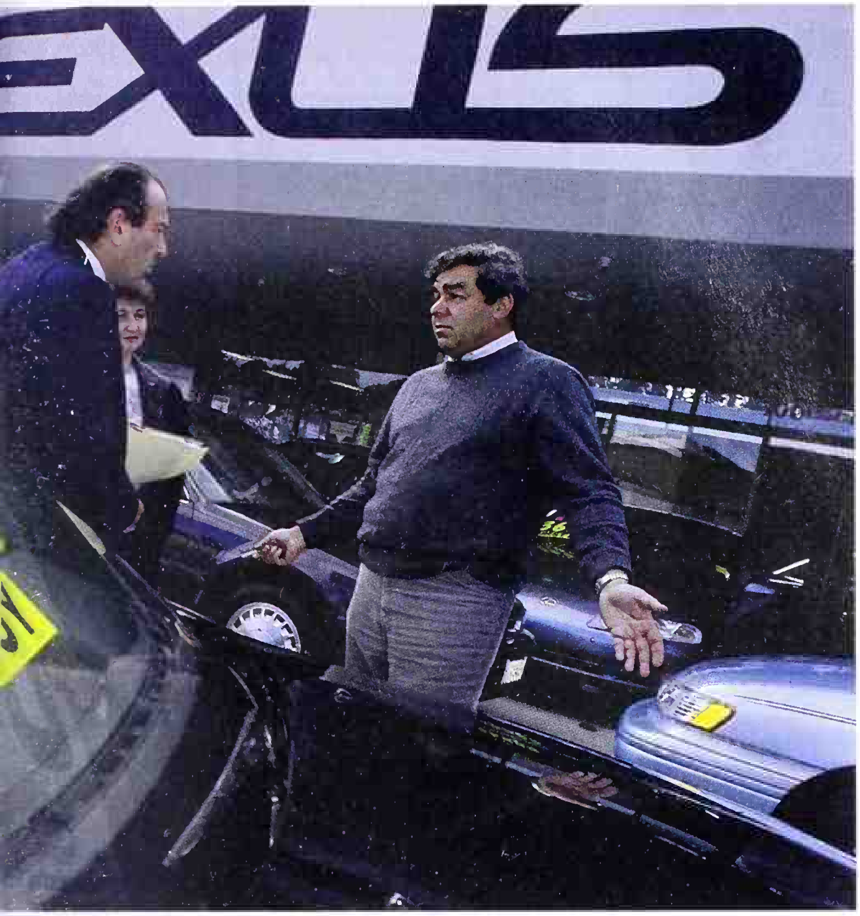
But the signals from Tokyo are tha the Japanese are not going to agree t the sorts of major deregulatory step or binding numerical targets that U.

The Shakeout in Japan's Auto Industry

The survivors will have to slash costs at home while building markets around the globe

WINNERS			
TOYOTA	MITSUBISHI MOTORS	SUZUKI	ISUZU
Untouchable. Although sanctions on luxury cars would hit Toyota harder than other makers, its conservative, cost-conscious management has avoided bold-move mistakes and socked away $25 billion for rainy days such as these.	Has been gaining market share at home with a string of popular recreational vehicles. A heavy presence throughout the Asian region puts them in growing markets where labor is cheap. Wide product offering is tricky to manage but a hedge.	Small but surprisingly strong, Suzuki ranked fourth in Japanese sales last year and has a great profit margin. Widespread investment in Asia and minimal exposure in the U. S. make it well-placed to deal with a rising yen. Unaffected by sanctions.	Strong in big and um-size trucks, di engines and recre al vehicles, all of are showing healt sales. It's making push into China a selling some land boost the bottom Unaffected by tari

GERRY GROPP



Japan's domestic auto industry has too many employees, too many models, and too many suppliers. Says one analyst: "Somebody should just disappear"

SANCTIONS MAY HURT JAPANESE LUXURY-CAR SALES BUT WON'T HELP DETROIT MUCH

de Representative Mickey Kantor is king. Some Japanese are betting that ssroots pressure from U.S. auto lers and consumers could stop the ctions from taking effect in 30 days. More important, the top ministries as l as members of the ruling coalition pear to have reached consensus that era of giving in to U.S. trade de- nds is over. "As victims of sanctions, ll suffer," but accepting new commit- nts to purchase U.S. parts "will also t us," says Taizo Yokoyama, a for- r official of the Ministry of Interna- nal Trade & Industry who is now a naging director of Mitsubishi Motors p. "So we might as well stand firm." If that happens, Clinton will have to accept some minor concessions at the Group of Seven meeting in Halifax, N.S., next month—or choose to impose the tariffs. His negotiating partner, Murayama, is on the verge of resigning and will carry little negotiating clout.

"OVERCROWDED." Part of Japan's resistance to U.S. pressure is based on the knowledge that the nation's strongest manufacturers clearly will survive a shakeout. Toyota and Mitsubishi will probably get even mightier as the strong yen and weak markets at home force them to continue their drive to become integrated multinational manufacturers. The U.S. tariffs affect only tiny fractions of their global business. Moreover, Toyota is sitting on $25 billion in cash and Mitsubishi, bolstered by being part of Japan's strongest *keiretsu*, has additional strength in a wide product line, from trucks and buses down to minis, that leaves it hedged against the vagaries of the market. Other survivors will include Suzuki Motor Corp., which boasts a 24% profit margin. "They can make cars even cheaper than Toyota," says Takahiro Fujimoto, an auto expert at Tokyo University.

If a handful of marginal assemblers is forced into a deeper embrace or outright merger with stronger competitors, it will only fulfill a long-standing MITI

JURY'S STILL OUT

JI HEAVY

er of Subarus ng big profits es of the Lega- s overreliance tation wagon me analysts to t will have to ith Nissan. y the .

HONDA

More than any other Japanese carmaker, Honda relies on the U.S. market. While reverse importing offsets some of the *endaka* problem, the company's domestic market share is falling. Sanctions on its Acura will hurt.

LOSERS

NISSAN

Made history with the first postwar closing of a Japanese auto plant, but it hardly put a dent in the company's problems, including heavy investments in Mexico and Spain and a substantial debt burden. Hard hit by tariffs on three models.

MAZDA

Is having trouble. Has a long way to go in the cost-cutting race, and marketing in Japan is not strong. Heavy dependence on exports to the U.S. means profits tumble when the yen rises. Tariffs will hurt two models. Is likely to require more help from major shareholder Ford.

DAIHATSU, HINO

Although both companies are strong in truck sales in Japan and Asia, they are unable to compete in passenger cars. They will likely be forced more deeply into the embrace of Toyota, which owns stakes in each.

PETER WEINSTEIN

GREG GIRARD / CONTACT

goal—to streamline the crowded industry. "The market is definitely overcrowded, especially now," says a MITI official. "The era of 10% economic growth [for Japan] is over."

So the onetime masters of industrial planning at MITI say they're prepared to let market pressures force Japanese manufacturers and parts providers to become more efficient. Small, unlisted suppliers that lack economies of scale have been killed by increased production and parts purchases overseas. Even larger companies are being forced into mergers. Suzuki has been pressuring its suppliers to join forces. Two aluminum-parts makers, piston specialist Totsuka and wheel maker Tenryu Seisaku, merged to form Totsuka Tenryu last June. Honda affiliate Showa, a shock-absorber maker, has joined with unlisted Seiki Giken, and Nissan suppliers Unisia Jecs merged with unlisted Nippon Denshi Kiki.

Similarly, weaker vehicle makers have started making ad hoc marriages of convenience with the strong. Hino Motors Ltd. has long been considered an independent company even though Toyota owns 10% of it. Now, in response to profit pressures, Hino and another independent Toyota satellite, Daihatsu Motor Co., are being drawn closer into Toyota's orbit, giving up production of three kinds of two- and three-ton trucks to market Toyota's instead. Toyota will sell some Hino trucks.

OVERSEAS ADVANTAGE

Mitsubishi, with plants in Malaysia and elsewhere, is a multinational manufacturer–and a probable survivor

"SLOW BURN." Among the majors, prospects are grimmest for Mazda Motor Corp. and Nissan. The two have been swimming in a red-ink sea for years. Nissan has lost $1.5 billion in the last two years and expects losses of at least $65 million in the year ended Mar. 31. Mazda's production is dropping along with its sales everywhere. Its domestic market share is now lower than Daihatsu's, and the company has a 60% export ratio. It is in no position to expand overseas production, which leaves it most vulnerable to the U.S. tariffs—its two sanctioned models account for 9% of U.S. sales. "We're talking about a slow burn among the weaker players," says Matthew Ruddick, analyst at James Capel.

Nissan is more worried about the yen than Washington. Despite closing the Zama plant, Nissan could shutter another by yearend. "Until the yen jumped again, we thought we'd be O.K.," says Nissan Executive Vice-President Yoshikazu Hanawa. "It's a big shock at the moment, and employees are especially worried."

They should be. While Japanese companies don't lay off workers officially, they've started paring payrolls in ingenious ways. Nissan has been transferring workers to dealerships on 25-month contracts, with the dealers taking on half the salaries. At the end of the "temporary" contract, dealers and employees may be "persuaded" to make the arrangement permanent. "If you're a 50-year-old office worker sent to a dealership in Hokkaido, that's not a cut, but, well, it's a cut," says Koji Endo, an analyst at Lehman Brothers Inc.

At the end of the day, Japan isn't likely to let any of its carmakers go bankrupt—and certainly not Nissan, Japan's second-largest carmaker with nearly 50,000 workers. One ace up Nissan's sleeve is its vast real estate holdings, reportedly among the largest in Japan. "Nissan is sort of a landlord that makes cars on the side," says W. Van Bussman, Chrysler Corp.'s corporate economist. By selling some of its land, Nissan could clean up its balance sheet. Nissan also could benefit if it absorbed Fuji Heavy Industries Ltd. Even Mazda will be kept alive by Ford and the Sumitomo group, its largest two backers.

Because most failing companies will be supported or absorbed, the number of workers actually laid off could be much more modest than the bloodletting the U.S. experienced in the early 1980s. So far, Japan's manufacturers have managed to cut domestic production without cutting payrolls. The peak production of 14 million vehicles was managed with a massive force of temporary workers and backbreaking ove time of 2,400 hours a year. By cutti the number of hours and redeployi workers, the companies hope to avo most outright job losses. Nissan's closi of its Zama plant, for example, result in only about 100 people losing the jobs—the ones who refused to be trar ferred to other plants.

So U.S. tariffs—combined with a ki er yen and slow growth in Japan—w help force a streamlining of the Jap nese auto industry. Tokyo University Fujimoto sees a future in which Japa auto makers form networks in whi they are both competitors and partne "They can handle these flexible ne works of quasi-independent firms whi compete pretty intensively at the pro uct level but sometimes cooperate the company level," he says. "Those ne works are pretty stable."

If the Japanese manage this sho as they have previous challenges, t result will be an even more compe tive Japanese market, where margi are razor thin and distribution channe and supplier networks are dominat by fewer players. The new networks cooperation envisioned by Fujimo could make the market tougher to pe etrate for U.S. parts makers and au companies themselves.

That raises the question of how se ous U.S. auto makers really are abo Japan (page 47). In 1992, Chrysler w the first U.S. maker to bring in a rig hand-drive auto from the U.S., the Je Cherokee. In the two-liter-and-und market, which amounts to 80% of au sales in Japan, U.S. makers offer ju eight models. Ford Motor Co. alo

ns a credible distribution channel.
Now, with the yen making Japan so
ensive for most foreigners, U. S. car-
kers reckon the market is relatively
ture and that trying to penetrate it
't worth the price. Aside from the
ssive initial investment in dealerships
spending on advertising and devel-
nent, it's difficult to build a distinctive
lan in the already crowded market.
Back home, the Big Three aren't like-
to benefit from the tariffs on Japan's
ury cars either. Lexus and Infiniti
ers are more likely to turn to Euro-
n marques, such as Mercedes, BMW,
vo, and Saab. Detroit won't be able
raise prices on Lincolns and Cadillacs
ause of the intense pressure from
Europeans. Cadillac just had its
rst quarter since the Arab oil em-
go of the early '70s, and the new
coln Continental was introduced last
r at a steep $7,000 increase over the
del it replaced. Ford has already had
offer big lease incentives to sell it.
OR TO DOOR. Few auto industry ex-
ts on either side of the Pacific ex-
t the U. S. tariffs to achieve their
ted purpose of forcing Japan to
lertake what Commerce Under Secre-
y Jeffrey E. Garten calls "fundamen-
" steps to open its market. Among
possible symbolic concessions from
an would be agreeing to allow the
S. companies to place cars and per-
s sales representatives in some Jap-
se showrooms. That will have scant
act because the real selling is mostly
r-to-door. Salesmen know their cus-
ners' birthdates and the names of
ir children. That level of commitment
ikely to elude the Big Three.
A second major U. S. demand is for
deregulatory steps to allow Japanese
air shops to import much cheaper
S. replacement parts for Japanese
s. Last, Washington wants Japanese
nufacturers to make major increases in
ir purchases of U. S.-made auto parts,
h for their transplant factories in the
S. as well as for plants in Japan.
There's much industry speculation that
yota might break ranks with other
nufacturers—and with MITI—to make
ne parts-purchasing commitments. But
chances of a quick agreement to
en up" the Japanese market in a way
t has major impact on the U. S. trade
icit are dim at best. It would have
n one thing to do this 20 years ago,
today the Japanese auto industry is
stronger and far more globalized than
r. It is strong enough, in short, to
orb the pain of a new auto shock and
ne back swinging.
By Edith Updike, with Brian Brem-
, in Tokyo, Amy Borrus in Wash-
ton, David Woodruff in Detroit, and
rry Armstrong in Los Angeles

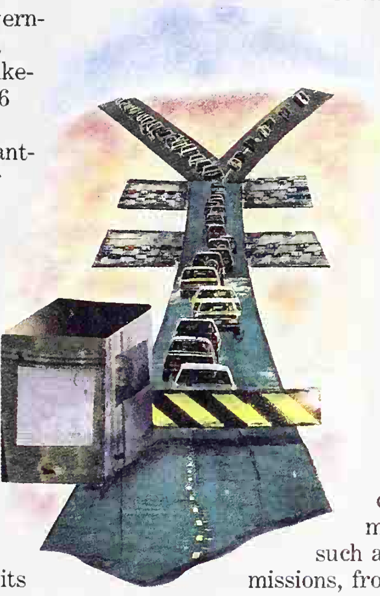
COMMENTARY

By David Woodruff

EVEN IF JAPAN BACKS DOWN, DETROIT WON'T WIN MUCH

The rhetoric flowed freely when U. S. Trade Representative Mickey Kantor announced trade sanctions aimed at wedging open Japan's auto market on May 16. U. S. auto makers have become as "productive as any industry on earth, and they should be allowed to compete fairly," Kantor declared. By slapping 100% tariffs on Japanese luxury auto imports, the Administration is hoping that Japan will cave in and allow U. S. autos and parts to freely enter its market.

Don't bet a yen on it. Even if the Japanese government does relent, a U. S. victory is unlikely to reduce the $66 billion trade deficit with Japan significantly or to bring a big payoff for U. S. industry. Detroit's Big Three have no major plans to expand into Japan, which they see as a mature, low-margin market. And while U. S. parts suppliers are hungry to sell more in Japan, the Japanese government is unlikely to open its market enough to make much of a difference.



ELLEN WEINSTEIN

ON A LIMB. Ironically, the Clinton Administration may be gambling on the wrong horse, while risking a serious downturn in U. S.-Japanese relations. The Administration has challenged Japan on autos and parts because those products account for 60% of the trade deficit—and the industry employs millions of voters. But before U. S. trade officials headed out on a limb, they should have secured a commitment from Detroit to invest in new models and expanded dealerships in Japan.

The Big Three have never invested the megabucks needed to crack Japan. Only in 1992 did Chrysler Corp.'s and General Motors Corp.'s Adam Opel unit begin to sell right-hand-drive cars there. Most important, the Big Three never developed the dealer network needed to compete with Japanese rivals. That's in contrast with European luxury carmakers, which have made substantial inroads in Japan.

With the Japanese market expected to grow just 2% annually over the next several years, Detroit still does not find Japan an attractive place to sell cars. Even though the high yen has made American auto imports more competitive, Detroit will come away with about 1% of Japan's market this year.

About the best that the Administration can hope to gain from the trade tussle is a voluntary agreement by Japanese carmakers to buy more U. S. auto parts both in Japan and in the U. S. Even that will be tough. Most Japanese plants in the U. S. already buy a great many small parts locally. But experts expect the Japanese companies to continue bringing in most big-ticket items, such as engines and transmissions, from home. In Japan, U. S. suppliers such as Tenneco Inc. want to boost sales of parts, but they still face a variety of obstacles, from complicated rules for parts approval to closed distribution systems controlled by the auto makers.

On the plus side, some Big Three executives argue that taking on Japan will improve Detroit's access to other booming markets, from India to Vietnam. Even so, that's an insufficient reason to pick a monumental fight with Japan. Japan's economy is undeniably plagued by Byzantine regulatory policies. But without clear U. S. industry intentions to compete with Japanese carmakers on their own turf, it doesn't make sense to wage trade war to gain entry.

Woodruff covers the auto industry from Detroit.

COMMENTARY

By John Templeman

WHEN WILL GERMANY STOP SLEEPWALKING?

The German economy is growing at a brisk 3% rate, and corporate profits should jump more than 40% this year. Anywhere else, it would be time to celebrate after four years of tough cost-cutting. But in Germany's executive suites, a deepening pessimism has doused the party mood. "This country is in trouble," asserts one prominent businessman.

Peer behind the economic data and you can see why business is in such a funk. Wages are high and rising, hefty social security taxes are increasing, and the overvalued German mark is menacing the export-led recovery. Worse yet, everyone is blaming someone else. Seen from the boardroom, the culprits are dilatory government and greedy labor unions. In union committee rooms and Bonn Cabinet offices, even if it sees the problems, each group fingers the other two as the guilty parties.

OVERPAID? The huge wage increases won by metalworkers clobber German competitiveness

MILAN HORACEK / BILDERBERG

In reality, there are no innocents in Germany's slow-motion, but deep-running crisis. The key problem is that government, labor, and business all cling to the outmoded social consensus that ensured labor peace and nurtured economic success after 1945. Trouble is, the old social pact depended heavily on two hidden pillars: Relatively protected national markets and widespread capital controls that shielded Germans from too many outside pressures.

DISMAL RESULTS. But now the Asian Tigers have elbowed their way into world markets, while the fall of the Berlin Wall has allowed millions of skilled but low-paid workers to compete with Western Europe's laborers. In finance, billions of dollars of hot money now slosh around the globe daily, swiftly distorting one national economy after another. Even Germany risks punishment by the traders.

The trigger won't be bloated government debt of the sort that causes runs on the Italian currency. It will be the terrible performance of German companies burdened by their high costs. Return on equity in Germany, figures Morgan Stanley, is about 6.75%, well below the 16% in Britain and 17%-plus in the U.S. If such dismal results persist, investors will shun German securities for opportunities elsewhere. "[Foreign] capital is free to move and look for the best returns," says Markus Rösgen, Germany analyst at Morgan Stanley & Co. International Ltd. in London. "It doesn't care whether Germans believe in some sort of social [welfare] market capitalism."

Yet most Germans are curiously unaware of the gravity of their situation. And business leaders, who know what's at stake, don't seem to have the stomach to tackle the problems. One example: After two years of productivity gains and wage moderation, engineering and metal-working employers conceded huge pay increases this spring to the IG Metall union.

This makes a bad situation worse. The German Auto Makers Federation (VDA), estimates that U.S. and Japanese unit labor costs will average 55% and 56%, respectively, of their German competitors' costs this year. The contrast with Eastern Europe is even more striking. Says Heinrich von Pierer, CEO of engineering giant Siemens: "Just the increase in hourly wages and benefits [this year] is more than half the total hourly cost of a Czech worker."

TAX ON TAXES. Adding to Germany's runaway costs is the gold-plated welfare state. Social levies already double average wage costs, but there is still no serious attempt to overhaul the system. Warns McKinsey & Co.'s Germany chairman, Herbert Henzler: "We are just muddling through."

Chancellor Helmut Kohl's government, faced by a strong Social Democrat contingent in parliament, is doing little. This year, instead of pruning benefits to finance the costs of long-term elderly care, the government slapped on an extra 1% payroll levy. This comes on top of a 7.5% surcharge added to every income tax bill, a sort of tax on taxes, starting on Jan. 1. The payroll taxes are so heavy that the jobless—now 9.6% of the workforce—are often better off staying on the dole. Idled workers with one child get 67% of their previous net pay for 15 months. Agrees a senior German official: "There are too many disincentives to work."

It's clear what government, business, and labor should be doing. Bonn needs to cut taxes and eliminate $100 billion in subsidies to special interest groups. Business must press on with the task of making German industry globally competitive. Unions must realize that fighting for a bigger slice of the national cake is self-defeating when the cake stops growing. Yes, it means a painful recrafting of Germany's cherished social consensus, which once produced an economic miracle. But unless Germans tackle this task, they risk massive social turmoil—with frightening implications for Germany, Europe, and the world.

Templeman is BUSINESS WEEK's Bonn bureau chief.

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RUSSIA

AND YOU THINK YOU'VE GOT TAX PROBLEMS

Russia's madcap system has foreign investors despairing

Until the taxman showed up, everything was bubbling along just fine for Coca-Cola Co. About a year ago, the soft-drink giant opened a new bottling plant near Moscow—the first of $100 million in investments planned for the fast-growing Russian market. Coke is racing to grab market share from archrival PepsiCo Inc., which got there first.

Then this spring, Russian authorities without warning scrapped a tax exemption on imported construction materials used at the plant, assessing Coke a cool $1.4 million. In late March, Coke got another surprise tax bill for about the same amount, as the government suddenly hit foreign companies with an "excess wage" tax of up to 38% for virtually all of their Russian employees—retroactive to Jan. 1, 1994. Payment is supposed to be delayed until September, but Coke is taking no chances on penalties. "It's not clear that it has been deferred, so we're paying for all of our employees," says Jack Robinson, Coke's regional legal counsel.

BOUNTY HUNTERS. Most foreign business executives in Russia say they can handle political coups, gyrating ruble rates, and high inflation. But the nation's capricious tax system can do them in. It's not that Russian tax rates are so high—they generally are in line with those throughout Europe. The problem is that many taxes spring out of the blue and carry heavy retroactive penalties—often three times the amount due. Tax cops get extra pay linked to the amount they bring in from penalties. There's little chance for appeal. If foreign companies don't pay, inspectors can freeze their bank accounts, putting them out of business.

Foreign businesses aren't singled out for such cruel tax treatment—the same rules apply to everyone. It's just that many Russian companies find ways around them, from offshore shelters in Switzerland or the Isle of Man to outright bribery of officials. The Finance Ministry estimates that while most former state-owned enterprises pay their taxes, newer businesses renege on up to 70% of what they owe. At least 40% of Russian businesses pay no taxes at all.

ILLUSTRATION BY PAUL COZZOLINO

The Kremlin is under increasing pressure to collect taxes. The International Monetary Fund insists that the government cut spending and boost revenues as a condition for receiving billions in aid and loans. In a corruption-ridden environment, foreign companies accustomed to playing by the rules are easier targets than local startups.

Angry that Russia is milking U.S. cash cows, the American Chamber of
Commerce in Moscow urged Treasu
Secretary Robert E. Rubin to bring t
tax matter up during the Clinton-Yelts
summit on May 9-10. Rubin did discu
it with reformist Deputy Prime Minist
Anatoli B. Chubais, but he got litt
more than sympathy.

The irony is that Russia is shooti
itself in the foot over taxes. It bad
needs foreign investment, but the t
system is driving foreigners away. Ta
Huntsman Chemical Corp. of Salt La
City, which in 1989 took a 51% share
a joint venture with Marriott Intern
tional Inc. and Aeroflot to make plast
cups for the Soviet carrier. Huntsma
invested $2 million. In short order, ta
es shot up to more than $800,000
year—when sales were still only $1 m
lion. "There were threa
that if you don't pay imm
diately, we'll shut y
down," says Michael
Eades, vice-president f
packaging. Last yea
Huntsman bailed out of t
venture.

CATCHY TUNE. Russian t
experts agree that they'
got a big problem. "W
know that because of t
instability of taxes, Wes
ern firms can't plan the
work," says Alexander
Ivaneev, a tax policy of
cial at the Finance Mini
try. The problem is co
pounded by the Big S
Western accountants
Moscow, which can wre
havoc on foreign compani
by giving contradictory a
vice or interpreting t
rules too liberally.

Still, Ivaneev and oth
tax officials argue that t
four-year-old tax syste
needs time to mature. T
Finance Ministry hopes
present a comprehensi
tax code for parliamenta
approval later this yea
There also are proposals
reward tax inspectors f
the revenues they collect rather th
the penalties they issue.

But one idea to spiff up the tax sy
tem comes straight from a leftover S
viet mind-set. The inspectorate wan
to hold a public competition to compo
a new anthem: *The March of the T
Police.* Hardly a catchy tune for fo
eigners struggling to do business
Russia.

*By Peter Galuszka in Moscow, wi
Sandra Dallas in Denver*

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HINA: MOVE OVER, KARL MARX— IERE COMES CONFUCIUS

hina watchers have noticed a subtle shift in the behavior of President Jiang Zemin. Long a colorless party boss, Jiang is showing another dimension. He has begun sprink- g his speeches with classical poetry. He urges youths to recover Peking opera. And he praises the values of nfucius, the ancient Chinese philosopher long scorned by communists.

With communism rapidly losing relevance, Jiang other senior leaders are casting about for nething to replace it in the post-Deng Xiaoping . Their new mantras are old ones: patriotism so-called Chinese values, particularly respect authority. "When leaders speak in communist minology, nobody—including most of the gov- ment—listens anymore," says Ding Xueliang, a mer mainland ideological theoretician now sed in Hong Kong. "So they are using national- and Confucianism as substitutes for a dis- dited ideology."

RAL COMPASS. It's far from clear that this im- makeover will be enough to make Jiang the t paramount leader. But whoever the next ongman is, he will likely keep harping on the ial stability and high ethical standards that at the heart of Confucianism. That's because ina's leaders are searching for a way to main- a grip on an increasingly skeptical and frag- nted society. And they realize that the public, rmed by the corruption, crime, and sheer greed t have accompanied China's economic takeoff, wants its mo- compass restored.

This renewed interest in Confucianism is somewhat bizarre ause until recently, the communists denounced it for foster- an elitist class system that kept the masses down. Now, national best-seller lists feature books on such figures as ng Guofan, the 19th century Confucian scholar-turned- rlord credited with saving the corrupt and crumbling Qing Dynasty by putting down a popular rebellion. And in November, Beijing hosted the inaugural meeting of the International Confucian Assn. The featured speaker: Singapore Senior Minister Lee Kuan Yew, the most vocal advocate of "Asian values."

Communism is discredited—but Confucianism favors respect for authority

THE BETTMANN ARCHIVE

Traditional values have been talked up in Jiang's recent anticorruption sweep. The official news agency, Xinhua, recently prescribed a revival of Confucianism as "good medicine" to treat the "crisis of morality" that it blamed on Deng's market reforms. But despite such high-minded rhetoric, Jiang seems to be mainly interested in ousting such political rivals as deposed Beijing party chief Chen Xitong.

Still, the search for a way to adapt traditional social norms to modern China goes beyond the cynical self-interest of politicians. A number of bureaucrats, businesspeople, and intellectuals believe today's Singapore, Taiwan under Chiang Kai-shek, and South Korea under late dictator Park Chung-Hee are all useful models for China in its transition phase. All three promoted Confucianism to underpin one-party rule but left management of the economy to a technocratic elite. If China follows these models, technocrats are likely to gain a larger say in running the economy.

But whether the present communist elders can pass themselves off as the standard-bearers of China's glorious past is another question. Clearly, Jiang's paeans to classic opera and poetry are falling on deaf ears among younger Chinese, who are more interested in pop music and getting rich. And Jiang himself, who also wants the support of party hard-liners, hasn't thrown away his Mao suits. Not long ago, he declared that "to achieve communism is the highest pursuit of our life." Such mixed messages suggest the party will go with whatever works as it tries to avoid history's ash heap.

By Pete Engardio in Hong Kong

GLOBAL WRAPUP

NEW MEDITERRANEAN FORCE

In an attention-grabbing move, rance, Spain, and Italy are forming int rapid-action forces that include aval, air, and land units. Under an greement initialed on May 15 in Lis- on, a trinational command separate om NATO will be set up next Novem- er in Florence to coordinate the new rce, called Eurofor, which could raw on some 12,000 troops. Eurofor to be prepared for peacekeeping perations as well as evacuation of uropeans from troubled areas.

This is a sign of growing concerns, particularly in southern Europe, over instability in North Africa, the former Yugoslavia, and the Mideast. The European countries worry about being inundated with refugees from areas such as Algeria as well as the radicalization of their own immigrant communities.

HUNGARY TO PRIVATIZE

▶ After six months of dithering and taking flack from the international finance community, Hungary has pushed a privatization law through parliament. Although further glitches are possible, the law should make it easier for foreign investors to negotiate to buy state properties. Those likely to go on the block include electric utility MVM and oil-and-gas company MOL. The government probably will also float a further stake in the state telecom provider, Matav, which is already 30% owned by Deutsche Telekom and Ameritech. Such sales may pull in $1.25 billion by yearend. These moves are meant to show that Socialist Prime Minister Gyula Horn is serious about continued reform.

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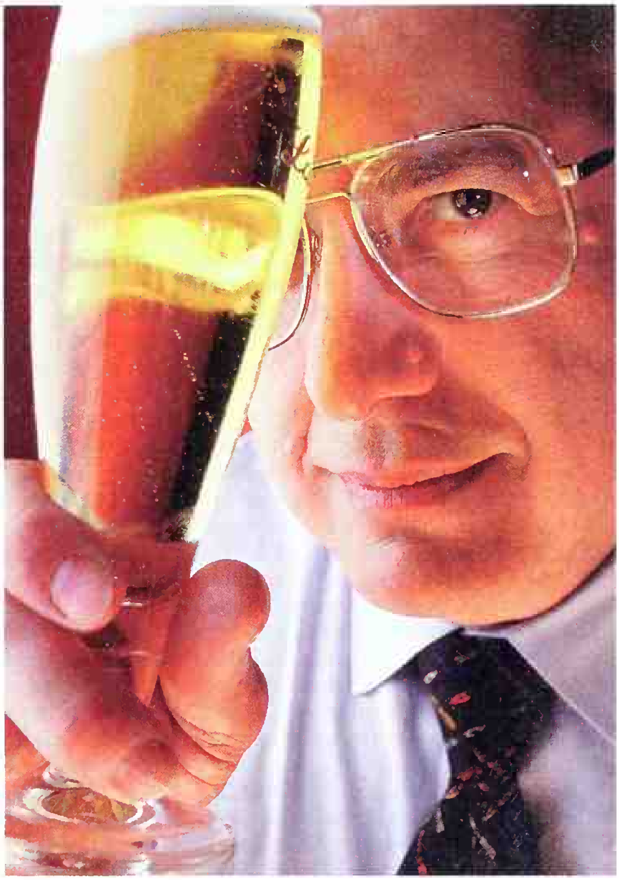
TRATEGIES

DID LABATT GUZZLE TOO MUCH TOO FAST?

The Canadian brewer's last setback: A bad deal in Mexico



George S. Taylor, the dour CEO of John Labatt Ltd., was almost
ddy when he an-
unced plans last July
pay $510 million for
22% stake in Mexi-
n brewer Femsa
erveza. After years of
eking growth beyond
e flat Canadian beer
arket, Canada's sec-
d-largest brewer had
acked one of the
orld's most promising
arkets. "We have
early positioned our-
lves for growth,"
ylor crowed. Paul A.
lcker, former Feder-
Reserve chairman,
w of James D. Wol-
nsohn Inc., Labatt's
vestment banker,
ared his exuberance.
lcker called the deal
landmark transac-
n in the post-NAFTA
vironment."

Barely 10 months
ter, that landmark
oks more like a land
ine. With the collapse of the peso at
e end of last year, Labatt says it will
ve to take a $219 million writedown
its Mexican investment in the fiscal
ar ended Apr. 30. And with the Mex-
n economy reeling, Taylor concedes
e Femsa deal is likely to hurt La-
tt's earnings for the next two years.
nalyst Jacques Kavafian of Levesque
aubien Geoffrion Inc. estimates that
batt's net earnings will climb only
6 in the fiscal year that's just ended,
$118 million, as its revenues rise 35%,
$2.3 billion. And the financial fallout
ntinues. The Canadian Bond Rating
rvice on Mar. 16 issued a "negative"
tlook for the company's debt, after
inting out that the Mexican
ritedown would raise Labatt's debt-to-equity ratio to 58%, from 44%.

CEO Taylor urges patience—but shareholders and hostile bidders may not wait for a payoff

The Femsa fiasco is the latest of several setbacks that have infuriated shareholders and set off speculation among analysts that the company may be ripe for a takeover. Already, Onex Corp., Canada's leading leveraged-buyout firm, disclosed on Apr. 14 that it was evaluating Labatt as a possible "acquisition opportunity." It's clear that many investors are unhappy with Taylor's strategy to expand into global beermaking, sports, and entertainment. From its 1992 peak of around 22, Labatt stock has tumbled 30%, to about 16. "Most of their thrusts have failed," grouses Ian Joseph, vice-president of Altamira Management Ltd., one of Labatt's institutional investors.

For the time being, Taylor, 54 and a 35-year Labatt veteran, is holding firm. Although he concedes the Femsa deal has put Labatt "in a potentially vulnerable position," he insists the company isn't for sale and vows to defend it against any hostile bids. "I share some of the frustration with the time it's taken" to execute the strategy, he confesses. To assuage restive shareholders he is trying to sell some of Labatt's sports and entertainment assets, including half of its 90% stake in the Toronto Blue Jays, to pay off some debt.

STEADY PROGRESS. Labatt's chief executive certainly has gone a long way toward remaking the 148-year-old brewery. After taking charge in 1992, Taylor sold off the company's low-margin food and dairy units, while improving the profitability of Labatt's core $1.3 billion Canadian brewery business. Aggressive marketing has helped Labatt capture 45% of the Canadian market, up from 41%. The net result: Operating profits at the Canadian brewery nearly doubled last year, to $192 million. Moreover, Labatt's net profit came in at $115 million in fiscal 1994, up 17%, on less than half the revenue it had in 1991. Even an executive at archrival Molson Breweries calls Labatt's "a very credible performance in a market where there's no significant growth at all."

Elsewhere, Labatt has made steady progress building market share for its beer operations outside Canada. Analyst Michael Palmer of Equity Research Associates figures Labatt has invested more than $275 million in Birra Moretti, Italy's third-largest brewer, and a network of 500 pubs in Britain. Labatt's Latrobe Brewing Co. has also made impressive gains. Since Labatt acquired full control of the Pennsylvania company in 1988, sales of its key brand, Rolling Rock, have doubled. It's now the eighth-largest brewer in the U.S.

Still, the foreign ventures haven't produced the bottom-line results that cheer shareholders. In expanding its European beer operation, Labatt lost $2 million last year. Meanwhile, Labatt earned just $3 million on U.S. sales of $169 million. Taylor blames marketing costs for sapping profits. "It takes a long time to build a beer franchise," he says, adding that fiscal 1995 results, to be released shortly, will show sharply improved earnings in the U.S. and Europe.

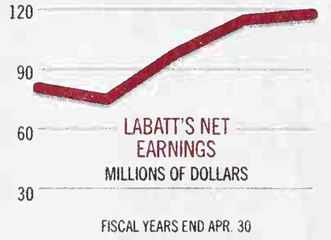
While conceding that Taylor's U.S. and European bets may eventually pay off, shareholders and analysts complain that his tenure has been marked by poorly thought-out and executed moves. Just one example: Labatt's legal tussle with Anheuser-Busch Cos. Anheuser sued Labatt in 1993 after the Canadian company tried to win U.S. trademark protection for the name "ice beer." Labatt contends it invented the process for making the smooth-tasting beer. On Feb. 11, a St. Louis jury ruled that ice beer was not a trademark and awarded Anheuser $5 million in punitive damages. Labatt is appealing the decision, but industry insiders say an angry Anheuser could cancel Labatt's lucrative licensing contract to brew Budweiser in Canada. Labatt dismisses such speculation as absurd. But a rival beer executive says Anheuser "wants to get out of the contract," since Labatt keeps most of the profits Bud generates in Canada. Anheuser wouldn't comment, except to say that terms of the contract are confidential.

Femsa is another sore point. At the time of the deal, many shareholders complained Labatt paid way too much for it. After all, Femsa has been losing market share since 1988 to Grupo Modelo, Mexico's No. 1 brewer, owned 17.7% by Anheuser. And as tariffs fall under NAFTA, analysts suspect Mexico may be swamped with U.S. brands. Philip Morris Cos.' Miller Brewing Co. turned down an opportunity to buy the same stake in Femsa because it felt the price was too high. With the peso's devaluation, Palmer of Equity Research figures Labatt's stake is now worth just $175 million—$335 million less than it paid.

In response, Taylor says no one could have predicted Mexico's financial meltdown. But he insists Labatt's Mexican expansion will eventually generate significant returns. True, beer consumption in Mexico, measured in volume sales, will shrink 6% this year, because of the economic crisis, according to Jose Antonio Fernández Carbajal, director general of Femsa Cerveza's parent company. But historically, Mexican beer consumption has recovered quickly from downturns.

Taylor claims he is sensitive to the concerns of investors, but he doesn't believe they're doing all that badly. Including special dividends and stock paid to shareholders in recent years—much of it from the company's spin-off of its dairy operations—Labatt reckons its shares have yielded a healthy annual return of 10.8% over the past five years.

SLOWING PROFIT GROWTH



DATA: COMPANY REPORTS, LEVESQUE BEAUBIEN GEOFFRION INC., BUSINESS WEEK

BYE-BYE BLUE JAYS. Meanwhile, Taylor is also trying to repair the company's balance sheet, by selling half of Labatt's share in the Toronto Blue Jays to its partners in the Sky-Dome. Within a year, Taylor also hopes to unload Labatt's rock concert promoter, BCL Entertainment. Still, these sales aren't likely to make a big dent in Labatt's $643 million of long-term debt. Analyst Kavakian of Levesque Beaubien Geoffrion estimates that Labatt's interest expense will nearly double in the current fiscal year, to $64 million.

Despite the planned asset sales, Taylor says Labatt's future remains closely tied to sports and entertainment. He's already looking to expand Labatt Communications Inc., which owns English- and French-language cable sports networks. Both are highly profitable, bu the household penetration of cable near its saturation point in Canada. T expand viewership and advertising op portunities outside Canada, Taylor talking with U.S. networks such a ESPN Inc. and Fox Inc. about taking 20% stake in LCI. An other possibility: t swap part of LCI wit a Canadian broadcas er for another broa cast outlet. In all, Ta lor is willing to pa with 49% of LCI.

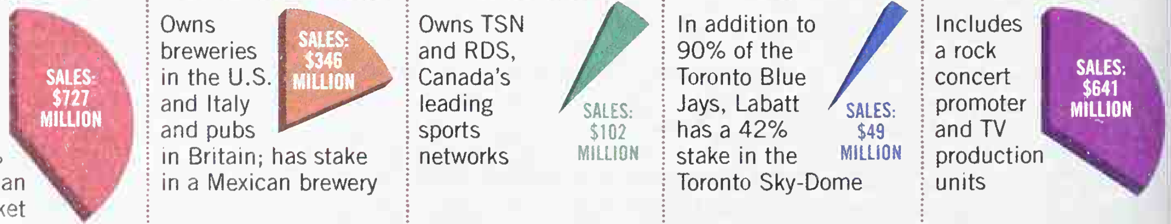
Although Taylor be lieves his strateg has considerable meri shareholders seem u willing to wait for re sults. Last Septembe institutional holder voted down a poison-pill plan Taylo proposed that would have allowed La batt to issue more stock to fend off hostile bid. It was the first time a man agement-supported pill had been defea ed in Canada, and that sent an ope invitation to takeover bidders. Analys expect that an acquirer, such as One would sell most of Labatt's businesses t repay some of the estimated $1.8 bi lion purchase cost, keeping just the Ca nadian brewery or broadcasting arm.

Some analysts suggest that the fina cial fallout from the Femsa deal mak an imminent takeover unlikely. If that the case, some shareholders say the may take matters into their own hand by proposing an alternative list of dire tors at this year's annual meeting. Th "most meaningful way to drive valu might be to shake up management says one. The message to George Taylo is clear: Patience may not be the virt he thinks it is.

By William C. Symonds in Toront with Elisabeth Malkin in Monterre and Richard Melcher in Chicago

Labatt's Expansion Program Leaves It Flat

The Canadian brewer's diversification strategy has had mixed results. Its major operating units include:



CANADIAN BREWING

Second-largest brewer after Molson, with 45% of Canadian beer market

OPERATING MARGIN: 22%

INTERNATIONAL BREWING

Owns breweries in the U.S. and Italy and pubs in Britain; has stake in a Mexican brewery

OPERATING MARGIN: 1%

CABLE NETWORKS

Owns TSN and RDS, Canada's leading sports networks

OPERATING MARGIN: 28%

SPORTS

In addition to 90% of the Toronto Blue Jays, Labatt has a 42% stake in the Toronto Sky-Dome

OPERATING LOSS: –$8 MILLION

ENTERTAINMENT

Includes a rock concert promoter and TV production units

OPERATING MARGIN: 0.2%

DATA: COMPANY REPORTS

BASED ON FISCAL NINE MONTHS ENDED JAN. 31

GRAPHICS BY ALAIN BASDEN

This announcement appears as a matter of record only.

$2,000,000,000

Limited Partnership Interests

Warburg, Pincus Ventures, L.P.

A venture banking affiliate of

Warburg, Pincus & Co.

The private placement of limited partnership interests
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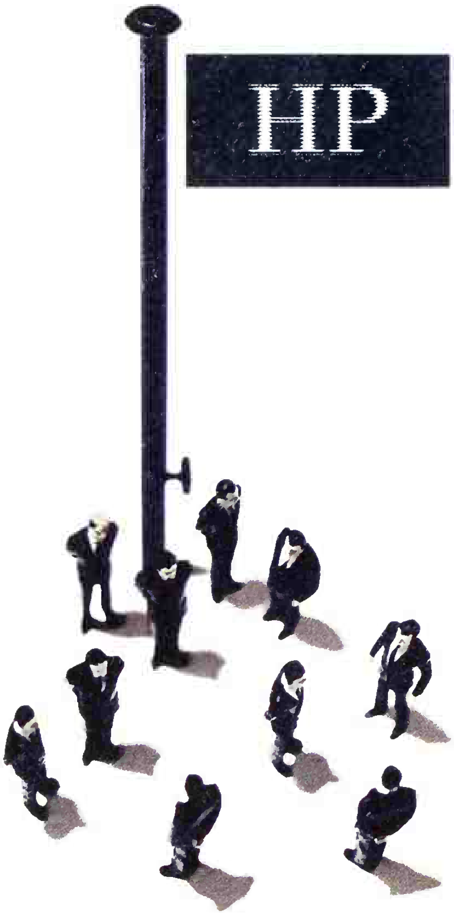
institutional and individual investors.

E.M. WARBURG, PINCUS & CO., INC.

NEW YORK LONDON HONG KONG

May 1995



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FALL FROM

Cover Story

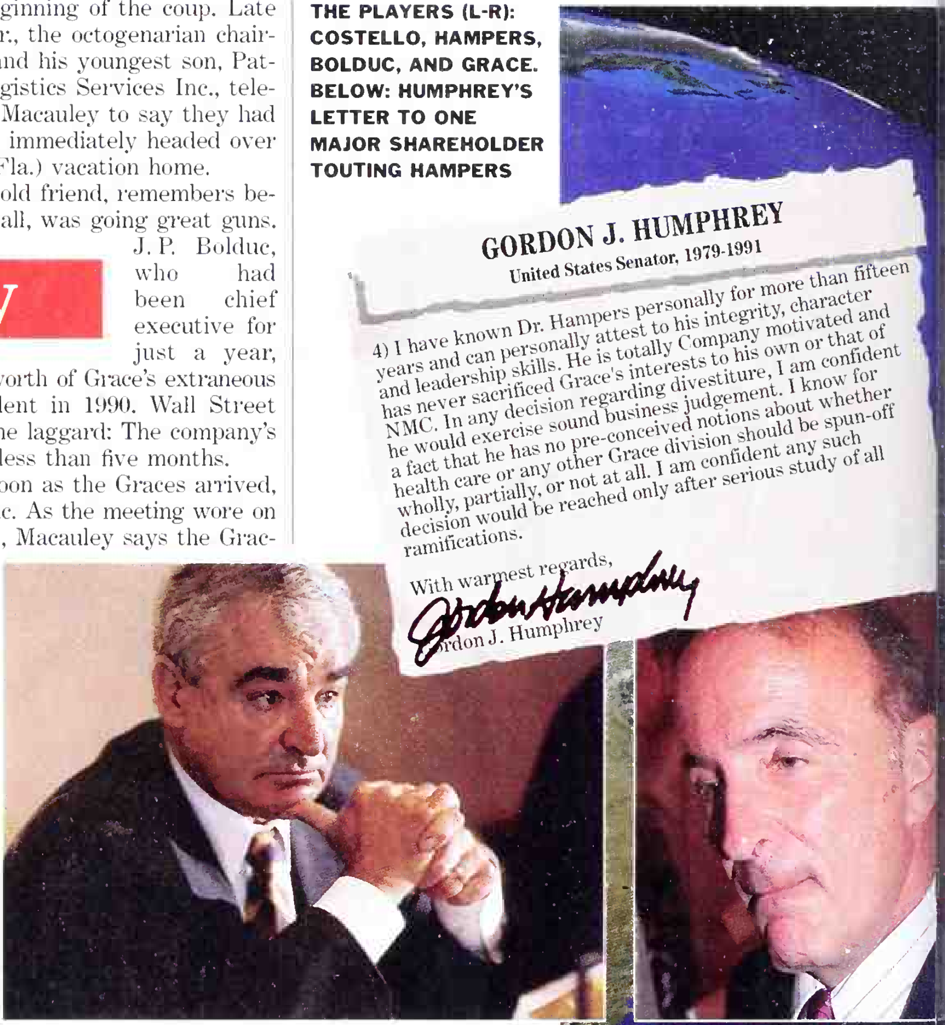
Feb. 11, 1994, marked the beginning of the coup. Late that night, J. Peter Grace Jr., the octogenarian chairman of W. R. Grace & Co., and his youngest son, Patrick, president of Grace Logistics Services Inc., telephoned Grace Director Robert C. Macauley to say they had something urgent to discuss. They immediately headed over to Macauley's West Palm Beach (Fla.) vacation home.

Macauley, ever indulgent of his old friend, remembers being mystified. The company, after all, was going great guns. J. P. Bolduc, who had been chief executive for just a year, had cut costs and sold $2.1 billion worth of Grace's extraneous businesses since becoming president in 1990. Wall Street was finally happy with the longtime laggard: The company's stock, at 45¾, had jumped 32% in less than five months.

"REALLY NEGATIVE WAY." But as soon as the Graces arrived, it was clear the problem was Bolduc. As the meeting wore on into the wee hours of the morning, Macauley says the Graces told him of troubling allegations they had unearthed against Bolduc, who had replaced the elder Grace as CEO of the Boca Raton (Fla.) company in January, 1993. The Graces told Macauley that Bolduc had allegedly committed financial improprieties that involved steering Grace company business to his friends and to a company on whose board he served. The Graces' "displeasure with Bolduc came out in a really negative way," says Macauley, who agreed that the allegations had to be pursued. "I wanted to investigate more thoroughly," he says.

With that secret meeting—which, along with the questions about Bolduc's financial dealings, has never been disclosed to the full board—the Graces began what appears to have been a concerted, 13-month campaign to push Bolduc from his post. Macauley says none of the allegations of sexual harassment that would eventually cost Bolduc his job were raised. Indeed, far from being the key issue behind

THE PLAYERS (L-R): COSTELLO, HAMPERS, BOLDUC, AND GRACE. BELOW: HUMPHREY'S LETTER TO ONE MAJOR SHAREHOLDER TOUTING HAMPERS



GORDON J. HUMPHREY
United States Senator, 1979-1991

4) I have known Dr. Hampers personally for more than fifteen years and can personally attest to his integrity, character and leadership skills. He is totally Company motivated and has never sacrificed Grace's interests to his own or that of NMC. In any decision regarding divestiture, I am confident he would exercise sound business judgement. I know for a fact that he has no pre-conceived notions about whether health care or any other Grace division should be spun-off wholly, partially, or not at all. I am confident any such decision would be reached only after serious study of all ramifications.

With warmest regards,

Gordon Humphrey

Gordon J. Humphrey

After making Bolduc his second-in-command, Peter Grace fell ill, and Bolduc became CEO. Out of Grace's shadow, Bolduc began to push the chairman aside

(L TO R) PHOTOGRAPHS BY TOM SALYER; GRAPHIC BY [illegible]

GRACE

How Peter Grace's hidden campaign to oust onetime protégé J.P. Bolduc unleashed forces far beyond his family's control

GERRY DAVIS

Bolduc's resignation, as the company has maintained, a BUSINESS WEEK investigation reveals that by the time those allegations surfaced more than a year later, they were just the most convenient cover for a long-planned corporate execution.

Cover Story

In fact, extensive interviews with more than a dozen key players—including directors, former and current executives, and major institutional shareholders—reveal that Bolduc's ouster was the result of a vicious, behind-the-scenes power struggle. It was a battle that pitted Bolduc, a voluble, back-slapping executive who naively believed his salvation lay in managing the company well, against the patrician Grace family and a band of loyal, financially beholden directors who resisted efforts to tamper with their private kingdom.

SHAREHOLDERS' VICTORY. As befits a Greek tragedy, all of the key players have suffered. Bolduc's reputation has been destroyed. Just days before his Apr. 19 death from cancer, Grace was forced to relinquish his position as chairman of the company he had ruled since 1945. Son Patrick, 39, who labored, several sources say, to gather information damaging to Bolduc, seems unlikely to ever run the company his great-grandfather founded in 1854—even though his father had talked openly of installing him one day as CEO. And Constantine L. Hampers, head of Grace's largest and most profitable division, National Medical Care Inc., failed in his highly politicized campaign to persuade the board that he was Bolduc's rightful heir.

Even Grace's determination to keep the company whole—and independent—has been undermined. Hampers has launched an unsolicited $3.5 billion takeover of the NMC unit. With NMC likely to be sold—either to Hampers or a higher bidder—shareholders say Grace's remaining units could also become acquisition targets. Wall Street investors are speculating that some Grace businesses, especially water treatment and packaging, could soon draw bids from other compani "I don't think the company will exist in its present form much longer," says one major institutional shareholder.

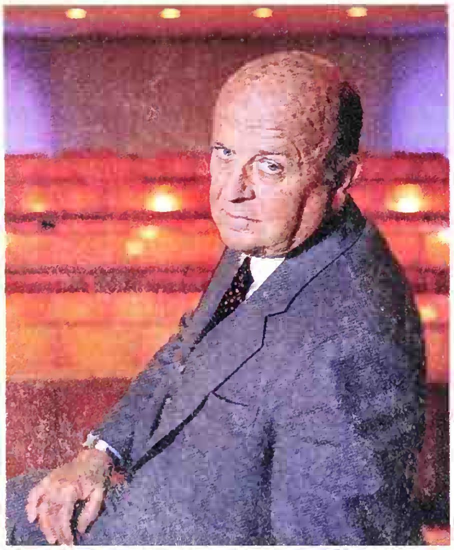
Oddly enough, it is the shareholders who have emerg victorious. For all the power he wielded, Peter Grace own just 0.005% of the company's common shares outstandi And his directors—many of whom presided over Grace two decades or more—shared a host of social and financ entanglements and refused to acknowledge modern-day st dards of corporate governance.

Now, W. R. Grace has been dragged kicking and screami into the late 20th centu A newly chastened boa has beaten back attemp by a faction allied with t Grace camp to inst Hampers as CEO. Inste the directors chose form American Cyanamid Cha man Albert J. Costel With a trimmed, more dependent board and ta of a breakup in the a Grace shares have jump 38%, to 61⅝ since Boldu resignation. Despite t high-level infighting, t folks in the trenches ha stayed focused on cost-cutting and a restructuring devised Bolduc. Sales rose 16% in 1994, to $5.1 billion, while oper ing income climbed 23%, to $515 million. Results for t first quarter were even better. Earnings from continui operations shot up 56% to $60.2 million, and revenues climb 25% to $1.4 billion.

> "I don't think the company will exist in its present form for much longer," says one major institutional investor

A happy ending for shareholders seemed unlikely in ea ly 1994, when Grace first began taking steps to remo

(CLOCKWISE FROM TOP) PHOTOGRAPHS BY ANDY FREEBERG, MICHAEL L. PRICE, TOM SALYER

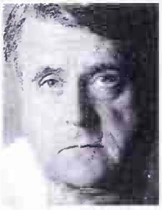


RESENTFUL: *Peter Grace felt betrayed when Bolduc caused one son to leave the company in disgrace*

The Grace Endgame

Jan., 1993 After months of gently prodding the board, Bolduc is named CEO. Peter Grace, ill with cancer, remains chairman.

May, 1993 Bolduc tells shareholders that he will divest extraneous Grace holdings, such as the wholesale cocoa business and a frozen bull semen unit.



J.P. BOLDUC

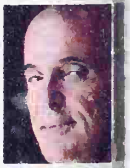
Feb. 11, 1994 Peter Grace and son Patrick, a company executive, pay a late-night visit to dir tor Robert Macauley, outli allegations of financial imp prieties by Bolduc.

LONG HAUL: *A truck at the division Patrick Grace heads*

Summer, 1994 Bolduc talks with Baxter I national about a joint vent with National Medical Car Disagreement over who wil head the merged unit scut the talks.

Oct.-Nov., 199 Son Peter Grace III misuse company funds. He resign and the money is repaid but Bolduc's handling of the matter enrages the elder Grace.

Dec., 1994 Angere over Bolduc's move to centralize NMC's billing and accounting in Grace headquarters, Hampers threatens to resign.



CONSTANT HAMPERS

lduc, 55. Current and former Grace exec- ves say his relationship with the much unger man had been extremely close, bor- ing on the paternal, for more than a ade. Grace tapped the obscure manage- nt consultant as his chief aide in 1982, en Bolduc joined him at a federal cost- ting group that became known as the ace Commission. The next year, Bolduc ned W. R. Grace as a senior executive l became Grace's right-hand man.

Bolduc made himself indispensable to the ckly tycoon, who always wore a loaded tol strapped to his leg. He oversaw the ease of the Grace Commission report in 34, then helped Grace form Citizens ainst Government Waste with columnist Jack Anderson l former Treasury Secretary William E. Simon. Bolduc also ame a member of the Knights of Malta, a secretive, selec- e Catholic lay order that counted Grace as its leader in the S. (BW—May 1). In addition, sources close to the compa- say Bolduc began managing Grace's personal outside in- stments, including a West Virginia timber company and ca Raton-based Brothers Gourmet Coffees Inc., which is w publicly traded.

By 1992, Bolduc was Grace's president and chief operating icer. Grace, meanwhile, was diagnosed with cancer of the and began undergoing chemotherapy. After a decade of bservience, Bolduc began operating more independently, mer executives say. That winter, he asked the board to ne him CEO. Since Grace would remain chairman, the ard acquiesced. Sources close to Grace say he was dis- ased but didn't argue against the move. In January, 1993, lduc became the first person outside the Grace family to the company.

As his power grew at the company, executives and directors say, Bolduc became less and less deferential. In the past, whenever Grace was around, former associates say Bolduc's large frame almost seemed to shrink in size. As his role expanded, any reserve disappeared. Bolduc's demeanor around colleagues never changed, however. Several longtime associates describe Bolduc as a somewhat roughhewn, bombastic man, who would swear and tell off-color jokes, and occasionally hug male and female colleagues.

> "This is Peter's board," Macauley told Bolduc. These are friends of his. All 20 of them." Bolduc shrugged off the warning

At the annual budget and planning meeting in the fall of 1993, Grace was conspicuous by his absence. "Bolduc really pushed Peter totally out of the company" around that time, recalls a former Grace executive. "Bolduc was telling executives not to pay any attention to [Grace, and] you could tell a little bit of friction was going on between Peter and J. P." Much of that growing tension sprang from Bolduc's determination to dump what analysts regarded as Peter Grace's vanity holdings—a cocoa company, a stake in gourmet food retailer Dean & DeLuca, and bath-products retailer Caswell/Massey—which were unrelated to the company's core specialty-chemical and health-care businesses.

BYZANTINE NETWORK. As 1994 progressed, the conflict between Bolduc and the Graces grew more intense. Bolduc was preoccupied with a restructuring at the disparate conglomerate. With praise from Wall Street rolling in, sources close to Bolduc say he failed to realize he couldn't afford to antagonize Grace, who still had the board's solid support. He shrugged off a warning from board member Macauley, who knew Bolduc risked pushing Grace past the breaking point. "This is Peter's board," Macauley says he cautioned Bolduc. "These are friends of his. All 20 of them."

Indeed, many of Grace's directors were interconnected by

(TOP TO BOTTOM) PHOTOGRAPHS BY DAN BORRIS/OUTLINE; TOM SAYLER

. 7, 1995 Bolduc meets in Raton with a small group ce's largest sharehold- indicates to investors earnings improvements oost the stock price, reak up W.R. Grace.

r. 2, 1995 Bolduc unex- ly resigns, with no ation given other than phical differences with ard. Outraged sharehold- nt Bolduc reinstated liately.

-Mar., 1995 ers retains Kroll Associ- investigate the "con- " to deny him the CEO thers say that Hampers oll unearth damaging ation about rival candi- for the job. Hampers oll deny this.

r. 30, 1995 Allegations olduc sexually harassed male employees are leaked to the press. The company now maintains that the allegations led to Bolduc's ouster.

Apr. 19, 1995
Peter Grace dies at 81.

May 1, 1995
At a hastily called meeting, a split Grace board taps former American Cyanamid chief Albert Costello as CEO. Hampers' supporters complain the process is rushed

KROLL: *Did Hampers hire him to dig up dirt on rivals?*

May 4, 1995
Spurned CEO candidate Hampers unveils an unsolicited $3.5 billion bid for NMC.

May 10, 1995
At Grace's annual meeting, new CEO Albert Costello says NMC will be spun off or sold to the highest bidder.

OUTSIDER: *Costello (above, right) bested Hampers, a powerful insider, to become Grace's new CEO*

DATA: BUSINESS WEEK

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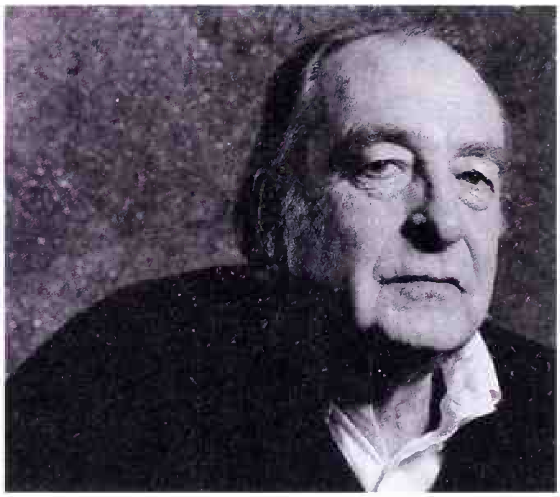
a byzantine network of old family ties, lucrative consulting contracts, investment activities, and joint memberships on other boards. Grace commonly paid many of his directors consulting and other fees in addition to their director's compensation. Over the past decade, Grace's proxy statements show that directors, their companies, or their relatives were paid more than $60 million in additional funds. Despite repeated efforts by BUSINESS WEEK to contact them, most Grace directors declined to comment.

Among Grace's board members, five had become particularly supportive of Peter Grace's efforts to oust Bolduc. This faction included Macauley, Virginia A. Kamsky, Charles H. Erhart Jr., Hampers, and Gordon J. Humphrey, a former U.S. Senator from New Hampshire. Macauley's charitable group, AmeriCares Foundation, counted Peter Grace as a founding board member and a daughter and granddaughter of Peter Grace as staffers. Kamsky's father had long been a top executive at Grace. Her consulting firm, Kamsky Associates Inc., collected $420,000 in fees from W. R. Grace in 1994 alone. Erhart was Peter Grace's second cousin. Humphrey drew consulting fees from the company as well and had long been associated with Peter Grace's various political activities. Humphrey also sat on the AmeriCares advisory committee and was an old friend of New Hampshire resident Hampers. A number of the directors, including Bolduc, also invested jointly with Peter Grace in ventures unrelated to the company, such as Brothers Gourmet Coffees and a private investment partnership, Catterton Group.



MACAULEY
A key Peter Grace confidant and Hampers backer, his foundation employed Grace family members

KAMSKY
She was a strong supporter of Peter Grace. In 1994, W.R. Grace paid her consulting firm $420,000 in fees

HOLMES
As acting chief, he sensed the deeper turmoil at Grace and wanted a clean, professional CEO search

(TOP) PHOTOGRAPHS BY MELANIE EVE BAROCAS

As Bolduc grew bolder as CEO, he began taking aim at Grace and other directors' perquisites. First he stripped Grace of his private company jet and reduced his personal company staff from 10 to 4. Then, in late 1994, Bolduc began discussing the need to disclose some of Grace's perks to shareholders. There were also rumblings that Bolduc intended to cut back sharply on the directors' lucrative consulting agreements.

LOOKING FOR AMMUNITION. But what really brought the dispute to a head was an incident that occurred last November. Bolduc and other top executives learned that J. Peter Grace III, the elder Grace's son, had used company funds improperly as he arranged to buy a unit that Grace was divesting. The younger Grace was asked to resign on Nov. 8 and did so the following day. J. Peter Grace III did not return repeated requests for comment.

At a meeting on Nov. 29 of a select group of directors, a solution was proposed: If the $1.4 million was repaid immediately, and the elder Grace resigned by yearend, the matter would not need to be disclosed to shareholders, since son would no longer be related to a board member. Althou the money was repaid, Grace saw the move as a ploy force his resignation and refused to quit. For the elder Gra say Macauley and others close to him, these moves were affront to his family's honor.

At this point, the Graces—Patrick in particular—intensif their efforts to gather ammunition, putting together inf mation on what they claimed were Bolduc's own questiona dealings. The gist of the allegations: Bolduc had the compa award lucrative contracts to his friends, including one w owned a large auto dealership in Boca Raton and was hired provide Grace with a fleet of cars. Another involved the co pany's purchase of a large warehouse in Baltimore from a B duc friend. Still another allegation involved a bid for a $40 r lion construction contract for a new Grace plant in Malays One of the losing b ders was affiliat with a company bas in Charlotte, N. C., whose board Bold sits. Through his la yer, Gerald Walp Bolduc denies any propriety and says ties to these indivi als and firms were closed to senior exe tives or the boa beforehand. To t day, none of the a gations of impropri has been publicly closed or discussed the full board.

Sources close to t company also say t a consultant with cl ties to Peter Gra traveled to seve Grace offices in t U. S. in search of e dence about sexua inappropriate beh ior by Bolduc.

Grace was app ently spurred to tion by his feeli that Bolduc had trayed him. He h after all, made J Bolduc what he was: an up-and-coming corporate chieft who could now count heavyweights such as Blockbuster E tertainment Group CEO H. Wayne Huizenga as a friend.

That Bolduc even found himself in such surroundi was a triumph of will over circumstance. He came into t world in 1939 as Joseph Jean Paul Raoul Bolduc, son o Lewiston (Me.) bobbin maker. By the time he made it Minnesota's St. Cloud State University on a baseball sch arship, he called himself Paul Ralph Bolduc. After gradu ing with a BA in business administration in 1961, he joi the U. S. Agriculture Dept. as a $5,540-a-year accounta His name then: J. Paul Bolduc.

Bolduc's inauspicious beginnings stand in stark contrast those of Peter Grace. A grandson of W. R. Grace, N York's first Catholic mayor, Peter Grace sprang from some the oldest money in New York. After graduating from Y University, he played world-class polo before immers himself in the company. He expanded W. R. Grace w do I gain a competitive edge?

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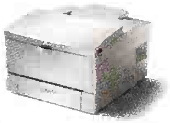

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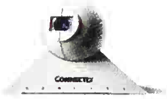

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Co. from revenues of $296 million, when he took the company public in 1953, to $4.3 billion, when he was pressured to stand down in as CEO 1992. But despite his patrician roots, Grace could be crude. He may be best known to the public for such idiosyncratic pronouncements as "this food stamp program is basically a Puerto Rican program" (1983) and New York's troubles spring from "Cuomo the homo" and "Dinkins the pinkins" (1992).

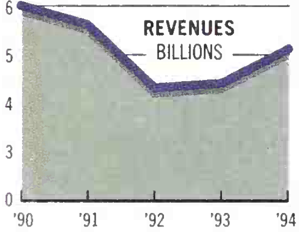
The Sum of Its Parts?

W.R. Grace & Co. started in the Latin American shipping business in 1854. Over the years, it has bought and sold an airline, restaurant chains, home-repair centers, and a sporting-goods retailer. Grace now consists of six core businesses:

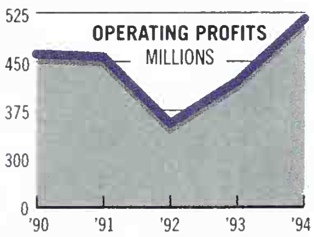
UNIT	DESCRIPTION	ESTIMATED VALUE (MILLIONS)
NATIONAL MEDICAL CARE	Outpatient kidney dialysis at 550 clinics, plus a growing business providing dialysis in patients' homes	$4,000.0
GRACE PACKAGING	Clear plastic and shrink wraps for the food industry	$2,400.0
GRACE DAVISON	Chemical catalysts used in the manufacture of motor fuel, plastic film, paint, plastics, and toothpaste	$1,100.0
GRACE CONSTRUCTION	Concrete and cement additives that enable buildings to withstand corrosion, water damage, and fire	$469.7
GRACE DEARBORN	Water-treatment systems for heavy industry	$375.7
GRACE CONTAINERS	More than 400 billion cans and bottles each year are sealed with Grace-made tops and caps	$375.7

* ESTIMATED VALUES EXCLUDE GRACE CORPORATE EXPENSES AND NET DEBT
DATA: COMPANY REPORTS, BEAR STEARNS ESTIMATES

After Bolduc's Restructuring...



...Earnings Take Off



DATA: BLOOMBERG FINANCIAL MARKETS

CHARTS BY LISA KNOUSE BRAIMAN/BW

Over the years, Grace had bought and sold such disparate businesses as Herman's Sporting Goods; American Breeders Service, which sells frozen bull semen to cattlemen; and the Houlihan's and El Torito restaurant chains. But when it came to selling off major assets—a steady shareholder refrain—Grace resisted. So, when Bolduc indicated to institutional investors that he would break up Grace's diverse units if the stock price didn't improve further, it just created another source of tension.

Bolduc probably could have continued remaking Grace if he had not made one final—and fatal—miscalculation. Until this point, Hampers, the powerful and autonomous NMC chief, had not taken sides in the escalating war. But in late 1994, Bolduc's moves to assert authority over NMC so antagonized Hampers that he threw his considerable weight in with the Grace camp.

SWEETENED SEPARATION. With that shift, Bolduc found himself without allies on the board. What little power he had derived from his sway with shareholders. Until almost the end, he had no idea how precarious his position was. "J. P. saw [the internal fights] as a minor irritant," says one big institutional shareholder who knew Bolduc well. "He was very confident [the Grace/Hampers faction] wouldn't uncover any business or operational problems."

Hampers was the wild card. A physician who cofounded NMC as a portable kidney-dialysis provider, he sold out to Grace starting in 1984—pocketing an estimated $100 million in the process—and stayed to head the operation. Fiercely independent, Hampers was left to run his own show, since he consistently delivered earnings and sales growth.

In mid-1994, Hampers says Grace began negotiations with Baxter International Inc. to merge part of NMC with Baxter's
kidney-dialysis unit. The Baxter/NMC deal, which has nev
before been revealed and which Baxter refused to confir,
would have resulted in a $3 billion freestanding compa,
says Hampers, who originally backed the plan. By late su-
mer, however, the deal fell apart over who would run t
new company. "It was a matter of control," Hampers sa.
"We could not work out the governance."

Then, in December, the Food & Drug Administration c
ed NMC for selling nonsterile medical products for a seco
time. Sources close to Bolduc say he was enraged and shar-
ly criticized Hampers. As pa
of his effort to rein in the
dependent executive, Bold
unveiled plans to centrali
NMC's billing and accounti
functions.

That was the last straw
Hampers, who threatened
resign over such meddlin
Bolduc was "a terrible pe
son as a boss," Hampers sa
"Bolduc had no grasp of wh
the operating people neede
Hampers says his dissatisf
tion with Bolduc led him
agree with the Graces th
Bolduc should go.

By then, sources s
Bolduc's days were number
At a one-on-one meeting
Jan. 13, Bolduc tried to ir
out his differences wi
Grace, says Walpin. But t
angry chairman refused
mend fences. Not long ther-
after, retired federal jud
Harold R. Tyler Jr.—who h
been retained by the boa
to give an opinion about t
need to publicly disclose t
company payments made
Grace and his family—w
also asked to look into the
legations of sexual hara
ment by Bolduc that h
been compiled. On Feb.
Tyler told the board th
"grounds existed to find th
Mr. Bolduc had sexually h
rassed" five Grace employe
Bolduc, through his lawy
denies the allegations, whi
he first learned of on Feb.
The identities of the wom
have still not been disclos
to Bolduc or the full board

Boldue was finished. In
late-night meeting on Mar
with directors George C. D
cey, John A. Puelicher, a
Eben W. Pyne, Bolduc agre
to resign and received a sweetened $48 million separati
package. Both sides agreed to keep mum about the sexu-
harassment allegations, and his resignation, for "philosophi
differences" with the board, was announced on Mar. 2. Le
than a month later, the sexual harassment charges we
leaked to the press.

Macauley and Humphrey immediately moved that Ha-
pers be named Grace's new CEO. Instead, the board picke

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Cover Story

reluctant Thomas A. Holmes, a retired CEO of Ingersoll-Rand Co., who was seen as more able to step in and run a large industrial company while the board conducted a less hasty search. Macauley believes that if Hampers had pushed harder and been elected CEO, he would likely still hold that position today.

Major shareholders were stunned by Bolduc's departure. Only three weeks earlier, institutions representing about 35% of Grace's shares, had met with Bolduc. Investors felt Bolduc had put Grace on the right track. So when they learned of Bolduc's ouster from news services, the shareholders felt they were the victims of an end run by Grace.

A few days later, in a meeting with Holmes, investors grew increasingly angry about his refusal to provide them with any more details on Bolduc's departure. Shareholders also feared that Hampers, who had quickly begun a public campaign for the CEO's job, would be chosen. The company's largest shareholders insisted that the new CEO be an outsider with no ties to the Graces. After that meeting, Holmes hired lawyer Martin Lipton to guide the board through the morass of selecting a new CEO and avoid what threatened to be a slew of shareholder suits. One major shareholder believes that although Holmes initially thought the charges against Bolduc were reasonable, he gradually realized that the board had not understood all the subterranean forces at play. Holmes, a relative newcomer to the board, promised a clean, professional selection process using an executive search firm.

EMERGENCY MEETING. Hampers, meanwhile, continued lobbying heavily for the job. Although he had the backing of the Graces, he hired investigative firm Kroll Associates because he was convinced there was a "conspiracy" afoot to discredit him and deny him the job. Hampers allegedly also used Kroll to investigate the backgrounds of other candidates for the CEO position. One candidate for the job says Hampers appeared to be trying to come up with information to discredit rivals. Hampers and Kroll both deny this allegation.

> Peter Grace had hoped that his son Patrick would one day run the company founded by his great-grandfather. But chances are that will never happen

FAMILY PLOT: PETER GRACE, WHO DIED OF CANCER ON APR. 19, WAS BURIED IN SPENCER, MASS.

RICHARD SCHULTZ

The intrigue didn't end there. Board members loyal to Grace—and supportive of Hampers—began campaigning on behalf of the NMC chief. On Apr. 10, Humphrey sent an unsolicited letter to Miller Anderson Sherrerd, an institutional shareholder opposed to Hampers because he was an insider and tied to the old regime. Humphrey offered a personal testimonial to Hampers' professional abilities and character. "Dr. Hampers is well qualified to serve as CEO of W. R. Grace," wrote the former Senator in documents obtained by BUSINESS WEEK. "...He is totally Company motivated and has never sacrificed Grace's interests to his own or that of NMC." Humphrey closed the letter saying that he and "several board members who share the[se] views" would like to visit shareholders personally.

Meanwhile, Kamsky applied her own pressure. John J. F. Sherrerd, one of the principals of the same firm Humphrey was courting, shared in common with Kamsky a trusteeship at Princeton University. Kamsky offered to pay Sherrerd a visit, according to Nicholas J. Kovich, the portfolio manager who oversees the firm's Grace investment. She propod bringing along Hampers. But two board members say tt Holmes did not appreciate these maneuvers and put a stopo the proposed meetings.

Holmes had to move fast. Grace's big shareholders we threatening to withhold their proxies if a CEO candide wasn't identified before the May 10 annual meeting. Ad Hampers' alleged background checks on his potential rivs made it imperative to keep the candidates' names secret. n Friday, Apr. 28, the board was notified of an emergey meeting to be held Monday morning in New York. It vs only Sunday night, over dinner with Holmes, that Hamp learned he wasn't the nominating committee's choice.

Monday morning, Albert Costello was presented as pick of the nominating committee, and Holmes pressed an immediate vote. Costello won, with 13 votes. Hamps got votes from five board members: Macauley, Kams, Humphrey, Erhart, and himself. Two directors abstain. Macauley says he and others who had supported Grace ad Hampers were outraged: "I thought it was abnormay quick," Macauley says. "I disagreed with the process." T may be a little bit true, says one big institutional shareholder with a smile: "By the tie Hampers summoned his s porters together, he did have enough time" to blk Costello's election.

But if he couldn't be CEO of W. R. Grace & Co., Hamp had an alternative. On May he went to Costello's office ad announced his bid for N. Costello says he was happy o see Hampers' offer. He krw he faced a difficult and ti consuming decision or whether to break up the co pany, as shareholders wantd. Now, the decision had almst been made for him. At Gra May 10 annual meeting, e new CEO said that at the vy least, NMC would be sold to e highest bidder or spun off o shareholders. "The die is st of cast," Costello said after the meeting. But in a written sponse to BUSINESS WEEK, he denied that more sales of major assets are on the way. "I'm not here to preside or the liquidation of W. R. Grace," says Costello.

Peter Grace was an active player in the struggle or the company virtually until the day he died. Macauley ad others who knew him well believe that Grace clung to fe longer to finish the fight as best he could, even rising from s hospital bed to deliver a final speech to the board on Ap 6. Too weak to finish it himself, Grace's wife completed is thoughts. "I have spent my life serving this company," Ge told the board. The "sad, even tragic, and unnecessary evets of the past several months [were caused by] an effort by y successor to mislead you and attempt to embarrass me d my family, and pressure me into retiring from the boa. Bolduc, through his lawyer, denies ever misleading the bod.

After receiving last rites from John Cardinal O'Conr three times in a week, Peter Grace died on Apr. 19, st days before the annual meeting that would have marked is last day as chairman of W. R. Grace. He died with his tle intact and with the knowledge that he had, in the ed, bested Bolduc. "I got him," a longtime Grace confidant sys he can picture Grace saying. "I got the bastard."

By Elizabeth Lesly in Boca Raton, a

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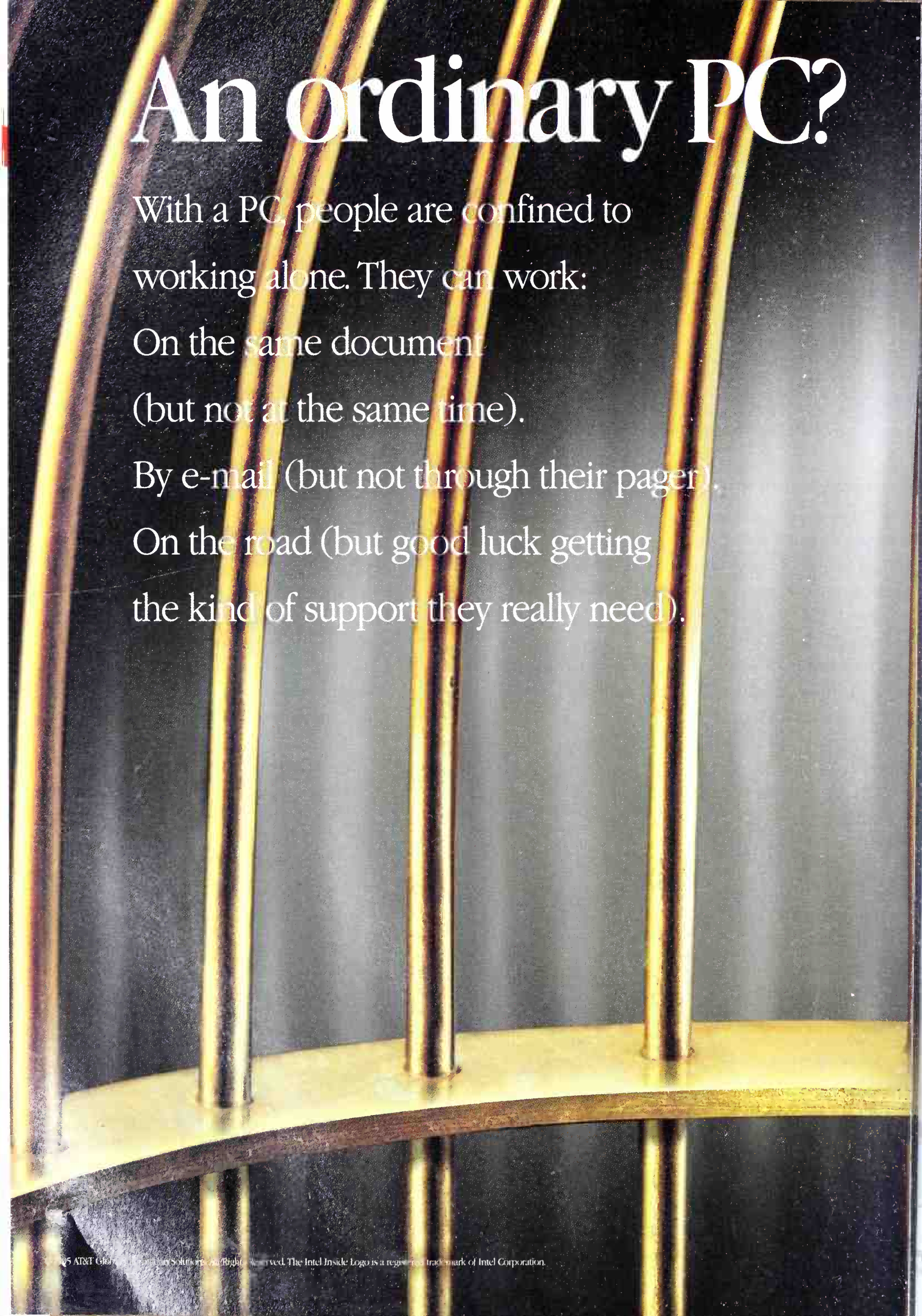

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THE AMERICA'S CUP

KEELHAUL ALL THE TECHIES?

Too much simulation, too little sailing, cost the U.S. the cup

TRICKY: *Black Magic (top) and Young America*

BLAKE SELL/REUTER

When Dennis Conner brought Young America to the starting line for the America's Cup races on May 6, he had the might of Yankee technology on his side. The sleek boat's design had been honed by hours of computer simulations, using software and engineers from such companies as Boeing Co. and San Diego defense contractor Science Applications International Corp. (SAIC). Much of the craft's winged keel was built by Ford Motor Co., and its carbon-fiber sails were high-tech wonders.

When yachting's premier event ended on May 13, however, the U.S. had suffered a humiliating defeat. In five straight races, Conner and the yacht he borrowed from rival team PACT 95 were trounced by New Zealand superboat Black Magic.

Is the loss to such a tiny nation yet another sign that America is losing its technological edge? Not really, insist Monday morning helmsmen. While Black Magic sported several innovations, the Yanks' biggest blunder may have been too much reliance on simulations and not enough on sailing. If you factor in the similarities of the two yachts and the margin of Conner's defeat, "it's obvious the reason is more than just the design," says John Marshall, head of the team that built Young America.

TEST BED. Unlike the three U.S. groups vying to defend the cup, the New Zealanders came equipped with two competitive boats. That let them assess the effects of small changes in, say, sail shape or keel design. Resulting improvements are typically too small to measure. But they can be detected when racing against a similar yacht, explains Boeing engineer Winfried Feifel, who helped design Young America. "We didn't have the benefit of racing against another boat," he says.

The Kiwis also took the time—and had the moxie—to experiment.

Excuses, excuses. They include everything from a freak tornado to an insufficient budget

The small wings on Back Magic's keel stick out straight instead of being swept back like those on its rivals. U.S. designers know straight winglets are faster but feared they'd get tangled with seaweed. They were proved wrong.

Another innovation was Black Magic's rig. The Kiwis moved the mast farther aft than normal and added more gizmos to alter its bend. "They did more research than anyone else on sails, doing over 200 wind-tunnel tests. We di have the time or the budget to do kind of development," says Bill Tre of Team Dennis Conner.

"Not one of these things makes than a 5- or 6-second difference," professor Jerome H. Milgram of design director for America^3, the ly women U.S. team. "But if you've six of them, it adds up."

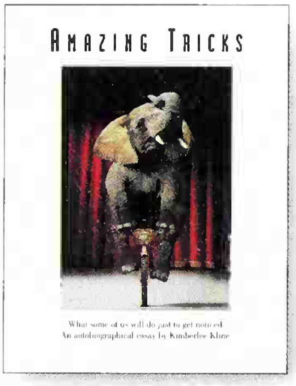
Given more preparation time, Y America probably would have been er. It had a new, improved keel rudder ready. But a f January tornado dam the boat and set back overall effort. Then br gear and sailing mistake to a demoralizing loss a hands of Conner's sl Stars & Stripes in the cup defender trials. A Young America was ha over to Conner's crew the finals, there wasn't to install the new e ment—or fine-tune the

WRONG SAIL? It didn't that veteran seadog Co whose crew performed lessly in the defender was outsailed by Kiwi per Russell Coutts. New Zealanders consist read the wind shifts b in part because of b seat-of-the-pants wea forecasting. And in the race with stronger win conditions where the w more stable Young Am had a predicted speed vantage—Conner blew picking the wrong mai critics say. "Dennis was on the learning curve," Marshall bluntly. Bunk, sail-trimmer Trenkle. "We'd actually ten Young America going faster" the PACT 95 crew.

Still, Marshall and others wond better preparation and sailing w have been enough to beat the New landers. From its perfectly cut sai its crack crew, Black Magic "had a edge in everything," says Milgram. American teams hope they'll be u speed for the next America's Cu 2000. They plan longer campaigns more sailing time. Already, corpo backers such as SAIC and Ford eagerly signed on. But the clear le It will take more than U.S. techno to bring the prize back from I Under.

By John Carey in Washi

Tiny had the hard part.
Scanning it was easy.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An autobiographical essay by Kimberlee Kline

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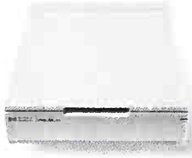
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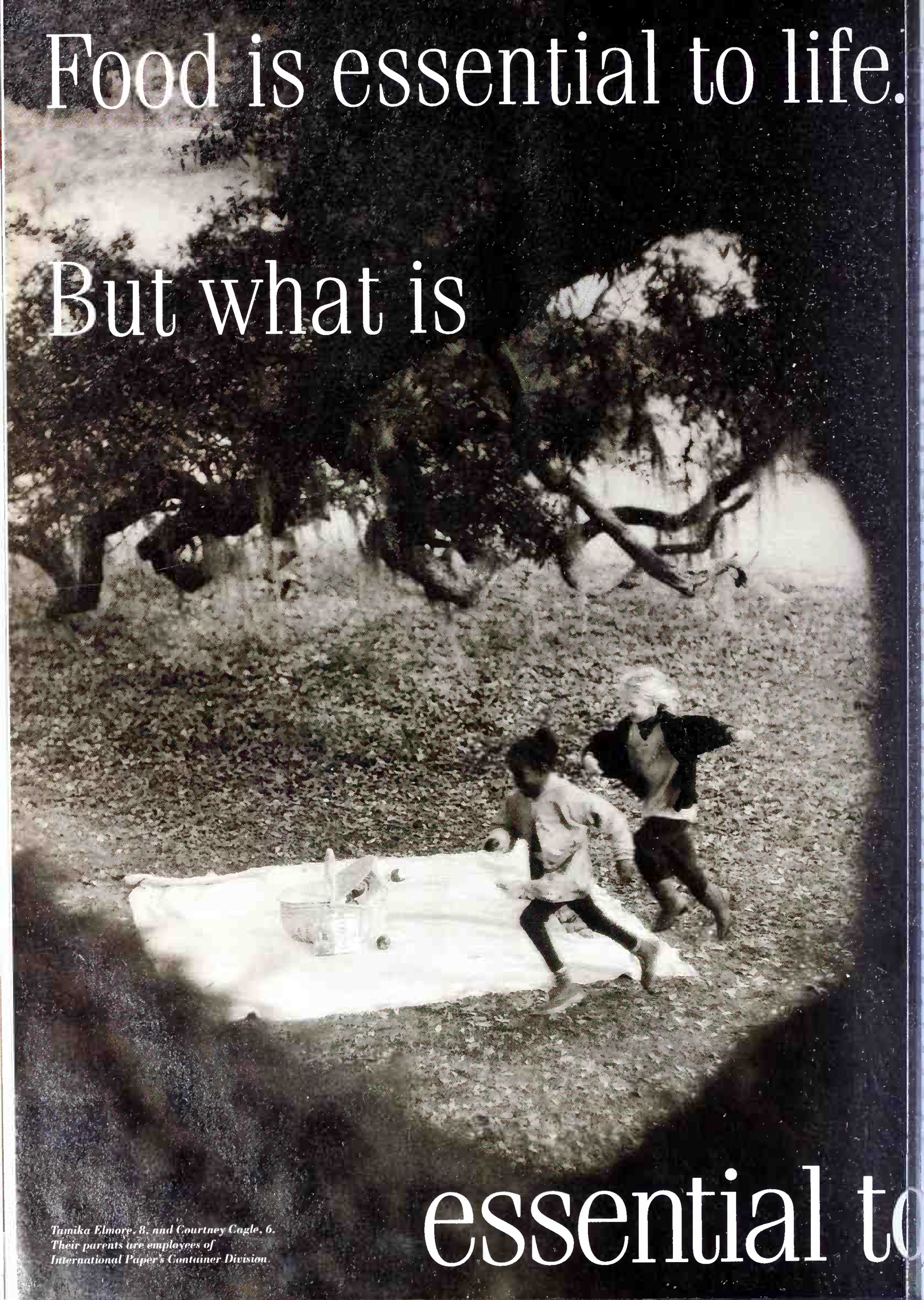
Food is essential to life.
But what is
essential t

Tamika Elmore, 8, and Courtney Cagle, 6. Their parents are employees of International Paper's Container Division.

AT ARE THE ISSUES?

st as our bodies need nour- ent to make it from childhood gh youth to adulthood, our needs packaging to make it the farm through the grocery to our dining tables.

ithout the right packaging, would be wasted. Indeed, arts of the world lacking isticated packaging technol- nore than 50% of the food is very year. It either rots or is ged during shipping.

rtunately, we have the tech- y to avoid these problems. For ce, a paper package isn't just made from paper of varying nesses with graphics thrown Almost every package is a ble technological feat, each a ic solution to a special problem. me packages endure fluctua- in temperature and humidity, hold ice while allowing the to drain, some withstand raping stacking without being ed. You get the idea. Without ifferent types of packaging, vouldn't have access to as fresh food. You also wouldn't as much variety. Some foods l become too expensive for people to afford.

e abundance of packaging aise the question: would we etter off without it? The r: not really. The practical on is a packaging material not only fulfills all the rements of getting food to us lso is ecologically conscious, , renewable and recyclable.

International Paper, we rstand the need to find a e between preserving milk for row's breakfast and preserving rests for future generations.

ood?

WHAT WE ARE DOING.

International Paper invests millions every year developing innovations that keep food fresh and nutritious. Our Barrier-Pak® beverage cartons use a patented layering process of special papers and coatings that function as sophisticated barriers to hold in the fresh taste and flavor of juices. We're also working on new packaging systems that will keep milk fresh and nutritious even longer.

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You can have fresh milk and tender chicken in Manhattan any time you please.

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CURRENCIES

THE DOLLAR'S DRIFT

Convenience, not clout, keeps it the world's key currency

The U.S. dollar has finally rebounded on foreign exchange markets, buoyed by apparent progress in curbing the budget and trade deficits—and possibly by a sudden reversal in market sentiment. But its rally is unlikely to be long enough or strong enough to reverse the slow and steady erosion in the dollar's status as the key reserve currency.

As something to lose sleep about, the dollar's reserve status—that is, the willingness of foreign central banks to hold dollars in their coffers—may seem fairly marginal. Stanford University economist Paul R. Krugman believes that concern over the issue is "98% mysticism—people get frantic about it when they have no idea what it means, which is not very much."

HISTORY LESSON. Economists who take the foreign exchange market's pulse daily aren't quite so sanguine. "The world could be lurching toward a multipolar currency system where the mark and yen serve as regional international currencies," William Sterling, international economist at Merrill Lynch & Co., wrote in a recent market letter. Along the way, there could be currency crises and panicky dumping of dollars. "History teaches that major transitions in currency systems are unlikely to proceed smoothly," he warns.

The numbers themselves are irrefutable. The dollar has for years been the predominant foreign currency that central banks hold; it still accounts for more than 60% of official reserves. But over the past decade, there's been a gradual slippage in the dollar's share as central banks accumulate more German marks and Japanese yen. Today, a mere 9% of worldwide official holdings are in yen, up from 6% a decade ago. Global holdings of marks stand at about 16%, up from 13% a decade ago.

Central banks obtain foreign exchange in a variety of ways. As nations run trade or current-account surpluses, those surpluses are deposited locally, and reserves are set aside with the central bank. Then dollars, yen, marks, and other currencies are bought and sold through central bank intervention [illegible] trading. Most of the time, currencies are held in short-term government securities, which earn interest, also add [illegible] to reserves.

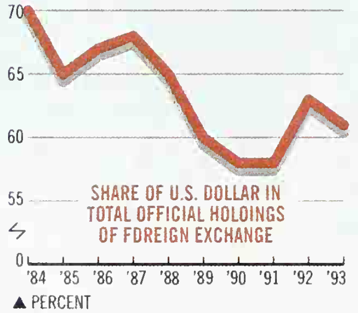
Perversely, the dollar's recent weakness may have raised global dollar reserves. The Bank of Japan, for instance, is estimated to have purchased $10 billion a month to support the dollar and undercut the yen's climb this year. Nonetheless, many smaller central banks in [illegible] may have been net sellers of dollars.

What is the significance of the dollar's loss of reserve status? First, there is the intangible but important geopolitical effect. The dollar's loss of prestige may undermine America's role as a superpower, observes Jeffrey Fran[illegible], an economist at the Institute for International Economics in Washington, D.C. A more tangible effect, though, may be a reduction in what economists call seignorage or the income or bene[illegible] country receives from its ability to get its currency accepted in exchange for goods and services.

EXTRA PENNY. When the Japanese sell Toyota [illegible] the U.S. and take dollars in return, for instance, they are accepting paper that represents a future claim on U.S. assets—in effect, an interest-free loan. For the U.S. government, the billions of dollars in circulation outside America means that a portion of government spending has been financed by an interest-free loan, noted Federal Reserve Board governor Lawrence B. Lindsey in a speech last year.

Lindsey quantified the benefit by noting that in 1981, following two rounds of inflation in 10 years, the [illegible] of dollars in circulation to U.S. GDP had fallen to just over 4¢ of currency per dollar of GDP. Twelve years later, after painful disinflation, there were slightly more than 5¢ for every dollar of GDP. That extra penny amounted to an extra $64 billion in seignorage, says Lindsey. A strong reserve status also means that the government probably pays les[illegible]

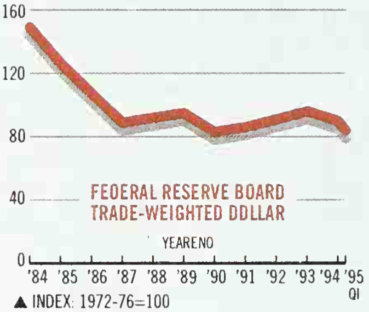
THE DOLLAR'S RESERVE STATUS HAS ERODED...



▲ PERCENT

DATA: INTERNATIONAL MONETARY FUND 1994 ANNUAL REPORT

...AS ITS VALUE HAS DECLINED



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Treasury bills than it otherwise might.

Such benefits will accrue only as long as the dollar continues to be seen as a store of value. What worries some economists, though, is that periodic bouts of dollar-dumping on forex markets will prompt central bankers to reduce their holdings—and that economic fundamentals may hasten the process. The U.S. now accounts for about 25% of global output, compared with about 50% after World War II, and is a net debtor rather than a net creditor.

Still, despite the mark's and the yen's elevation in reserve status, they will not soon displace the dollar. For one thing, neither Germany nor Japan has a market for short-term cash instruments nearly as broad or deep as the market for U.S. Treasuries, which investors can hop in and out of on a 24-hour basis around the globe. "Any currency, if it is to become an international currency, must have an efficient market," says Toyoo Gyohten, chairman of the Bank of Tokyo Ltd. and adviser to the Finance Ministry on currencies. Gyohten favors reducing Japan's dependence on the dollar, which accounts for 75% to 85% of the central bank's forex holdings.

MISMATCH. The yen doesn't even have the regional status that the mark does in Europe, since many Asian countries still link their currencies to the dollar, and most Asian trade is still denominated in dollars. But with more debt owed in yen than ever before, Asian nations such as Indonesia and Thailand are experiencing a big mismatch between export revenues and debt service. They will "probably want to change their profile of foreign reserves to more closely resemble their liability profile," says James Lister-Cheese, an analyst at London's Independent Strategy, a bond and equity research firm.

As a reserve currency, pound sterling outlasted Britain's preeminence in the global economy, and the dollar's reserve role may well outlast the U.S.'s. Indeed, observes David Hale, an economist at Kemper Financial Services Inc., it is surprising that dollar holdings are as high as they are. The dollar remains the lingua franca of international trade and finance. Oil and other major commodities are priced in dollars, most international debt is still dollar-denominated, and the dollar is widely used as a "street" currency—though the mark is gaining in Eastern Europe. None of that will change quickly. Nor, with no good substitute at hand, will the dollar suddenly be unseated as the key reserve currency. Slowly but surely, though, its once lofty status is being chipped away.

By Karen Pennar in New York, with Brian Bremner in Tokyo and Bill Javetski in Paris

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RESTITUTION

SWITZERLAND'S MORAL DILEMMA

How should banks disburse Holocaust victims' funds?

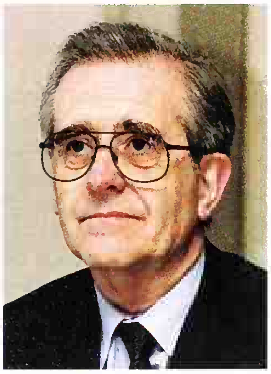
For the Jews of Nazi-occupied Europe, Switzerland might as well have been on the far side of the moon. Time after time, fleeing Jews were turned back at the border—in what the Swiss recently revealed was a secret agreement with Nazi Germany. The President of Switzerland, Kasper Villiger, admitted on May 7 that his country "bears a considerable burden of guilt for the treatment of Jews by our country." But in his speech before parliament, Villiger did not address an issue that continues to haunt the Swiss: Their banks may still hold on their balance sheets—as assets, not as liabilities—uncounted millions of dollars deposited by Jews slaughtered in the Holocaust.

The Swiss banking community maintains that it returned most unclaimed Jewish funds years ago. But Jewish organizations and critics in Israel and elsewhere believe otherwise and have persuaded the Swiss to take another look at the issue. The central question is a touchy one: Do banks have a moral responsibility not to profit from deposits of persecuted people when the heirs cannot be found? The banks contend that this is a nonissue, saying that most of the money was disbursed and that they've properly responded to claims. But critics are dubious. "I have no doubt that some of the missing funds found their way into the banks' profits, and shareholders received dividends from funds which don't belong to them," says Akiva Levinsky, ex-treasurer of Israel's quasi-official Jewish Agency, which has dealt with the matter over the years.

BURDEN OF PROOF. How much abandoned money may remain in Swiss bank vaults—and balance sheets? No one knows for sure, but estimates range from tens of millions to hundreds of millions of Swiss francs. One probably overgenerous Israeli newspaper estimate puts the figure at $6.7 billion. But whatever the amount, it is a sensitive subject in Switzerland for a simple reason: Swiss banks get to keep abandoned funds.

Switzerland treats inactive acco far differently than the U.S., w banks must turn over abandoned counts to the state if the owner heirs cannot be found. Swiss law that if an account is inactive fo years, the bank must post a notic the branch where the account is dled. Ten years after the notice is ed, the bank is allowed to take po sion of the unclaimed funds. If rightful owners, or heirs, turn up they can claim the funds—if they furnish satisfactory proof. And thats big "if" in Switzerland.

Even before the deposits were co ered abandoned and taken by the b critics charge, only rarely were refu or their descendants able to pry funds from the Swiss. The banks quired documentation, including th



CHAPUIS: *Bankers may soften their stance*

nt number, branch, and oof of inheritance. "The iss made it difficult for original depositors to their money, let alone the heirs who often ne out of Auschwitz hout as much as a scrap paper," says Amram m, former Israeli admin- ator general in charge bsentee property.

n thousands of cases, the rs received brief written ponses that nothing had n found. In each in- nce, the banks charged a ty fee to conduct the search. How- r, the Swiss maintain that they were ply following usual procedures. "This normal practice. It has nothing to do h Jewish money particularly. We id charge a search fee for anyone ing for missing money in our bank," s Franz Raggenbass, a spokesman Union Bank of Switzerland.

D LETTER. It wasn't until 1962 that Swiss government required banks report funds held by them on be- of foreigners or refugees from the . According to reports in Israel— Swiss never released any figures— banks reported 9.5 million Swiss cs in unclaimed funds. At that time, Swiss government asked all clai- nts to register. About 7,000 did so— ugh Levinsky says only a few of se claims were accepted. They received about 7.5 million francs when the Swiss disbursed the funds in 1972. Jewish communities in Switzerland and a Swiss refugee organization got the remaining 2 million francs. The 1962 ordinance did not apply to those living in Eastern Europe, as the Swiss feared that the funds would be confiscated by the Communists.

The 9.5 million-franc figure did not include numbered accounts, safe-deposit boxes, or holdings of Jewish-owned companies. "From the Swiss point of view, companies did not perish at Auschwitz"—even if their owners did—Levinsky notes. To the Swiss, the issue was a dead letter after 1972, when the funds were disbursed. Swiss banks did agree to carry out searches for missing funds—for a price—and to turn over abandoned money to the owners or heirs. But Levinsky knows of no one who has had any success. Swiss banking officials wouldn't comment.

Part of the problem in tracing Swiss bank accounts is the tight secrecy of Swiss banking laws. Banks must keep account records open indefinitely—but that is not always enough. Since 1934, when the Swiss tightened their secrecy laws, banks could open accounts with numbers, and the banks often had no record of who owned the account. Swiss law permits banks to destroy correspondence related to accounts after 20 years. That could help shroud the origins of the numbered accounts.

Critics maintain that the Swiss have approached the issue in a particularly heartless manner. During his five years as Israeli economic consul in Zurich in the early '80s, dozens of Jews asked Noah Flug for assistance in tracking down funds deposited in Swiss banks by relatives prior to and during World War II. In nearly all cases, the trail went cold. "The Swiss banks took a legalistic approach to the problem and were very inflexible," says Flug, now general secretary of the World Jewish Restitution Organization, formed to deal with Jewish claims in Eastern Europe. Swiss banking officials declined to comment.

LUMP SUM? As recently as March, Jean-Paul Chapuis, secretary general of the Swiss Bankers Assn., was saying that the problem of Jewish money had been solved. But in April, not long before Villiger's revelation of the secret pact with the Nazis, the bankers caved in. At the behest of the Swiss government, the association began an inquiry into the issue and has promised a report on the subject by yearend. "The money remains the property of the depositors and their legal heirs," says Kurt Hauri, director of the Swiss Federal Banking Commission.

Levinsky says the Swiss willingness to reopen the matter could lead to an overall settlement in which a lump sum would be paid to settle the claims once and for all. But the Swiss will have the last word. Will they insist upon paying only legal heirs who can furnish documentation—even though entire families perished during the war, leaving no heirs and no records? In fact, it isn't even clear if they will conduct any searches. Bankers Assn. spokeswoman Silvia Matile says the inquiry "is aimed at proving, among other things, whether the search for this money is feasible or not." The answer, for 50 years, has been no—and as long as it remains so, this sour episode from World War II will continue to cast a pall over the Swiss banking world.

By Neal Sandler in Jerusalem, with John Parry in Geneva and Gary Weiss in New York

The President of Switzerland, Kasper Villiger, admitted on May 7 that his country "bears a considerable burden of guilt for the treatment of Jews by our country"

JEWISH REFUGEES, 1947: SWISS BANKS REQUIRE LONG-VANISHED DOCUMENTATION FROM HEIRS

(CLOCKWISE FROM TOP) PHOTOGRAPHS BY RDB, S. KUHN/RDB, CULVER PICTURES

INVESTING

RISK ARBITRAGE FOR THE TIMID

In the '90s, even cautious investors are having a go

Back in the rough-and-tumble 1980s, risk arbitrage—betting on the outcome of takeover deals—was a game played mostly by high-rolling wealthy individuals. It was considered much too risky for so-called "prudent" investors.

Now, some cautious investors, such as pension funds and endowments, are coming to the conclusion that risk arbitrage can produce fat returns with less risk than traditional stock investments. With merger-and-acquisition activity showing no signs of abating, such institutions as General Electric Co.'s $28-billion pension trust are beginning to jump in. Budge Collins, chairman and chief executive of Collins Associates, a firm in Newport Beach, Calif., that manages money for pension funds, endowments, and wealthy individuals, says that the approximately 10 arbitrageurs he deals with say they have received a total of about $1 billion in new money over the past year, most of it from corporate employee pension funds.

FRISKY RETURNS. Risk arbitrage, says Heide L. Lankeit, a senior research analyst at Tacoma (Wash.) pension consultant Frank Russell, "is a good diversifier. It's producing attractive returns now and we expect attractive returns over the next two to three years." Lankeit tracks the annual returns of 55 "event-driven" investment managers, whose holdings include distressed securities as well as risk arbitrage. Over the past three- and five-year periods, the returns were 16.6% and 13.6% respectively. That compares with S&P returns of 6.3% for the same three-year period and 8.7% for five years.

TIM GRAJEK

PLAYING THE M&A GAME

PLUSES	MINUSES
• Higher long-term returns than traditional investing	• Susceptible to sharp losses if big deal blows up
• Less volatility than S&P 500 stock returns	• Declines in a single year can be much worse than rest of market
• Index not closely correlated with stock market	• Management fees often higher than for more conventional funds
• More liquid than other alternative investments such as venture capital	

DATA: BUSINESS WEEK

In part because risk arbitrageurs are still seen as promoters of hostile takeovers, most pension funds that have invested in risk arbitrage prefer to remain in the closet. Yet company sources say that such companies as Eastman Kodak Co. and Kennecott Corp. are players. A spokesperson for General Electric says that the conglomerate's pension trust fund had "fairly recently" invested one-quarter of 1% of its fund, or roughly $70 million, with outside risk arbitrage managers.

To be sure, pension-fund consultants and arbitrageurs say that many more pension and endowment funds are currently kicking the tires than writing checks. But they think that more pension and endowment funds will eventually come to regard risk arbitrage as a relatively mainstream investment option, certainly one that promises less risk than venture capital, commercial real estate, distressed securities and junk bonds.

RAIDER-FRIENDLY. Risk arbitrage is certainly less risky—if somewhat less profitable—than it was in the 1980s, when many deals, often launched by raiders with questionable financing, fell apart. Since 1991, the cancellation rate on announced deals has averaged about 3.5%, half the level for the 11 years ending in 1990, according to Merrill Lynch & Co.'s *Mergerstat Review*. Today, bank financing is readily available and most large public deals are being launched for strategic rather than purely financial reasons. "There are blue-chip buyers and blue-chip sellers," says Peter M. Schoenfeld, vice-chairman and head of the risk-arbitrage unit at Wertheim Schroder & Co., a Street firm.

Playing the arb game, though, could raise some tricky issues for institutions. More money in the hands of arbs, says Alan R. Bromberg, a securities law professor at Southern Methodist University, itself help "create a more congenial environment for takeovers." But, he adds, it could also enable more raiders to play in the takeover game and create "conflicts of interest pension trustees," particularly if the company is a raider target.

Some of the new arb money has found its way to Wertheim Schroder, which claims to be one of the few large Wall Street firms that invests other people's money in these transactions. According to Schoenfeld, Wertheim's risk arbitrage limited partnership fund has grown by about 50% in the past year to about $180 million. Virtually all of the $60 million in new money has come from three corporate employee pension funds.

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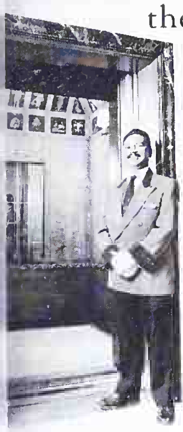
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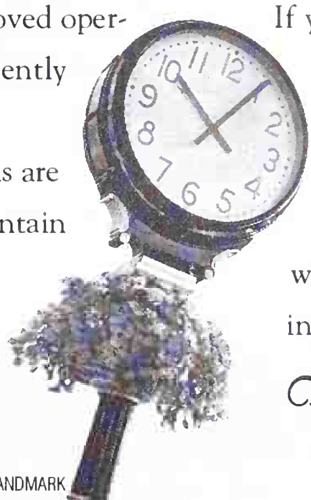
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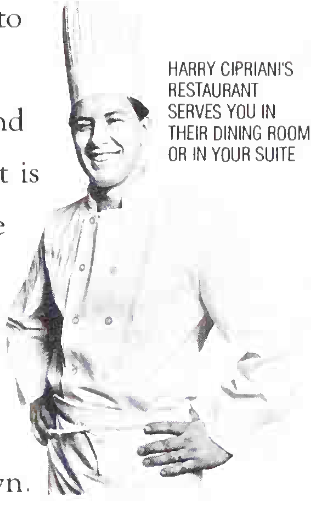
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college and foundation endowments, and even small investments from a few public pension funds, including one big-city firefighters' union fund. Since the fund was started in 1980, Wertheim says it has generated a 23.3% gross compound annual return to investors after expenses—and a net return of 19% after the firm takes its hefty share of the profits. In 1988, the fund earned a gross return of nearly 114%. Defying last year's bear market, it generated a 12.6% gross return. The fund is also investing in overseas deals, including transactions in which neither the acquirer nor the target is a U.S. company.

Risk arbitrage, of course, is no slam-dunk. "Risk arb hasn't always worked," explains Budge Collins. "If in 1987 and 1990 you say you invested in risk arbitrage, it looks like you took stu d pills." When the hits come, they can e brutal. Wertheim's fund dropped y nearly 17% in 1987 and 28.7% in 19 0, thanks to the collapse of bids to b y out UAL Corp., parent of United A lines. Risk arbitrage investors are b ting that the skies will be a lot frien i er in the future.

By Phillip L. Zweig in New Y

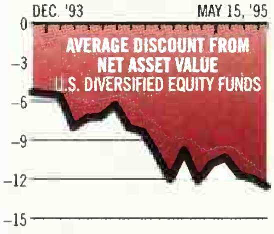
FUNDS

AN OPEN SECRET: CLOSED-END FUNDS

Bargains are plentiful. So why are investors shunning them?

The bulls seem to stampede down Wall Street every day, taking the stock market to new highs. They're galloping through the bond market, too. But there's one dark corner untouched by the thundering herd: U.S. closed-end funds. They're trading at bear-market valuations, making them some of the best bargains in the investment bazaar.

CLOSED-END DISCOUNTS ARE WIDENING



DATA: THOMAS J. HERZFELD ADVISORS INC.

Closed-end funds' problem is not their portfolios. The value of their holdings has surged this year. But closed-ends have a fixed number of shares that trade like stocks. That means, unlike mutual funds, they can change hands at prices far different from their net asset values (NAVs). When a fund trades at a price in excess of NAV, it's at a premium; when the price is below NAV, it's at a discount. In bull markets, investors bid up the shares: Discounts narrow and sometimes become premiums.

The bulls have held sway for the past six months, yet they have had no impact on discounts. Bond-fund discounts are little changed from the bear-market bottom. Equity discounts have actually widened (chart). The reason? Investors haven't shaken off 1994. That's when share prices for equity funds fell an average of 12.5%, even though NAVs lost less than half that amount. Bond-fund prices plunged 14.9%, vs. a 3.9% portfolio loss. "There's just no investor interest," sighs Thomas J. Herzfeld, whose Miami investment firm specializes in closed-ends.

When buyers are scarce is just the time bargains are bountiful (table). "These funds are about as out of favor as you can get, and many are historically very cheap," says Colin Mathews, an analyst for *Morningstar Closed-End Funds*. In buying closed-ends at a large discount, investors can win two ways if the markets rise: one from the gains in the underlying portfolio and the other from the improvement in share price.

It also helps to look for a catalyst that can eliminate the discount. For instance, the Jundt Growth Fund, at a 7.7% discount, plans to convert int a mutual fund, which will wipe out e discount. Analysts also like the Cha s Allmon Trust, a fund with a medic e track record and a 15.3% discount. P t folio manager Allmon is retiring d will likely be replaced by Liberty As t Management Co. Liberty also runs L erty All-Star Equity Fund, which n w sells at a 5.6% discount but often tra s at a slight premium.

A cut in the capital-gains tax wo ld help vintage funds such as Baker F n tress, TriContinental, and Salom n Brothers. All own stocks bought fo a fraction of their current value and h e huge unrealized gains. "One rea n these funds sell at discounts is that b y ers are factoring a tax liability," s ys Herzfeld. With a lesser tax bite, s counts should narrow.

"FLAT TAX" TALK. There's opportu y among the bond funds, too. Muni fu s have been under pressure as "flat t x" talk sweeps through Washington. B lowering rates, a flat tax would m e munis less attractive. Nonetheless, H z feld says some funds are irresisti e He bought Van Kampen Merritt Cali r nia Value Fund at a 20.1% disco t which is even larger than when Ora g County filed for bankruptcy.

Fund analyst Robert A. Young o Dean Witter Reynolds Inc. looks a similar funds that have different res s such as BlackRock Strategic Term T s 2002 and BlackRock Income Trust. e portfolio returns of both funds re around 10% so far year. Yet Term Tru up 8.8% in share p and trades at a 13 discount, while Inc Trust is up more t 14% and sells at a 5 discount. "If Inc Trust can rally, so a Term Trust," says Yo g

To be sure, there's sure thing in invest But at current lev s closed-ends come mig close.

By Jeffrey M. Lac man in New York

A Bargain Sampler

EQUITY FUNDS	DISCOUNT FROM NET ASSET VALUE*
CHARLES ALLMON TRUST	–15.3%
BAKER FENTRESS	–18.1
JUNDT GROWTH	–7.7
ROYCE OTC MICRO-CAP	–14.2
SALOMON BROS.	–17.8
SOUTHEASTERN THRIFT & BANK	–9.2

BOND FUNDS	DISCOUNT FROM NET ASSET VALUE*
ALLMERICA SECURITIES TRUST	–13.9%
BLACKROCK STRAT. TERM 2002	–13.1
CS FIRST BOSTON INCOME	–13.3
FRANKLIN UNIVERSAL	–7.5
NUVEEN PREM. INC. MUNI. 4	–13.0
VAN KAMPEN MERRITT CA. VALUE	–20.1

*Prices and discounts based on May 12 close, except BlackRock Strategic and Franklin Universal, which are based on May 11

DATA: LIPPER ANALYTICAL SERVICES INC.

CHART BY ALBERTO MENA/BW

o Above and Beyond Your Bottom Line

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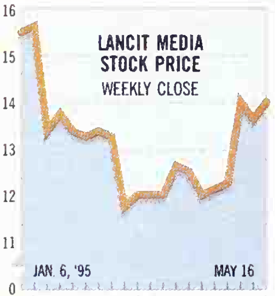
BY GENE G. MARCIAL

A SLEEPING BEAUTY IN KIDDIE TV

Kid stuff is a big winner these days in the movies—and in TV land. And every week, 62% of all preschoolers, according to A. C. Nielsen, watch PBS. So savvy investors have been buying into companies that excel in the fast-growing business of producing children's shows. One enterprise that has caught heavy hitters' fancy is little-known Lancit Media Productions (LNCT), a leading creator of TV programs for kids and family audiences.

PROFIT PROSPECTS 'R' THEM



EARNINGS PER SHARE
1997 Est. $1.00
1996 Est. 40¢
1995 Est. 20¢
1994 1¢
1993 -25¢

*FISCAL YEAR ENDS JUNE 30
DATA: BLOOMBERG FINANCIAL MARKETS, *RICHARD GEIST'S STRATEGIC INVESTING*

Based on Lancit's "sensational earnings prospects," Richard Geist, editor of *Richard Geist's Strategic Investing*, says the stock, currently trading at 13⅝, "could hit 30 in a year or so." That's not all. He believes Lancit is the "logical candidate for a buyout by a major media or toy company." Lancit CFO Gary Stein says they're talking with the big players in media and toys for possible strategic alliances, but there's nothing definite to announce. Lancit has already signed licensing pacts with Fisher-Price for toys, Sony for home videos, and Russ Berie for gift items.

Lancit's *The Puzzle Place*, featuring multi-ethnic puppet characters, premiered in January. Its ratings are second only to *Barney and Friends* in the PBS kids' lineup—thus outpacing *Sesame Street*. Whispers are that Lancit will soon announce deals with a national toy retailer and a department-store chain to market *Puzzle Place* products.

A second Lancit series is *Reading Rainbow*, the long-running PBS show that has won six 1995 Daytime Emmy Award nominations. Now in its 12th season, the series adapts picture books appropriate for beginning readers.

Lancit's third program, *Backyard Safari*, a weekly natural science series for kids in the early grades, is scheduled to air early in 1996.

While Geist expects 1996 to be a big year for Lancit, with estimated earnings of 40¢ a share on revenues of $35 million, he says Lancit should have a breakout in the year ending June, 1997, when productions will be up and running. By then, enough film costs will be written off that worldwide merchandising and licensing revenues will filter through relatively unimpeded to the bottom line, he figures.

Geist, who expects a 1997 net of $1 a share on revenues of $70 million, says Lancit's balance sheet is "stellar," with $10.5 million in cash and zero long-term debt. Despite threatened cutbacks at PBS, says Geist, "Lancit will see a proliferation of opportunities."

THE DEEP ALLURE OF POOL ENERGY

Don't follow the crowd. That's what adviser Charlie LaLoggia is telling the many investors chasing oil stocks. These companies are bubbling because crude prices are firming, but he thinks the shares are near their peak. Instead, LaLoggia likes Pool Energy Services (PESC), which does drilling and maintenance for oil and gas companies, mainly in Alaska, California, and the Gulf of Mexico.

What's Pool Energy's allure? Takeover prospects. Never mind that the shares, now at 9, are trading below their book value of 9½ or that Pool will, according to analysts, earn 20¢ a share in 1995—vs. a loss of 94¢ last year.

The speculation is that Nabors Industries (NBR)—an oil-and-gas equipment-and-services company—may make a run for Pool Energy, in which it already has a 6.4% stake. In a buyout, Pool Energy is worth 14 to 15 a share, figures LaLoggia. Nabors has been in an acquisitive mode for some time, according to analyst Joe Agular of Johnson Rice, an investment firm in New Orleans. Agular says Pool Energy is "attractively valued based on its healthy cash-flow."

Nabors acquired its stake in Pool Energy last June. A Pool spokesman says officials of the two companies met once after the purchase. Nabors Chairman and CEO Eugene Isenberg says he's still evaluating several altern tives, "including purchasing more P shares, making a proposal for a merg or other combination, and seeki board representation."

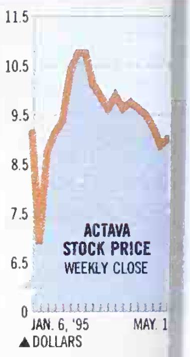
PLACING A BET ON JOHN KLUGE

What's billionaire John Kluge up these days? He's trying to g back into the media, entertainment, a telecommunications business in a l way. He had built Metromedia int giant company and then sold its asse mainly radio and TV stations, in 1984 $4.6 billion. His new company: Met media International Group, is focusi its growth efforts in Eastern Euro Asia, and the former Soviet Union.

"Metromedia International is a b on Kluge and his group—who ha consistently been the first to en markets with explosive upside pot tial," says Steve Christensen of D las Research & Trading. "We're b ting they'll be big winners again i these emerging markets for cable, r dia, and phone services."

The company results from a four-w merger of Orion Pictures (movies), MC Sterling (entertainment), Metrome International Telecommunications (ph equipment), and Actava Group (a mi conglomerate). Upon completion of t merger in July, Metromedia will be p licly traded, with Kluge as chairm Stuart Subotnick as vice-chairman, a Jack Philips as president and CEO.

THE ACTAVA ROA TO METROMEDI



DATA: BLOOMBERG FINANCIAL MAR

Investors can get in on the new Metromedia now by buying either Actava (ACT), at 9, or Orion Pictures (ORPC), at 6. Chistensen estimates that the new Metromedia, which will trade on the Big Board in July, has an intrinsic value of 30 a share.

The company has formed joint v tures with the governments in 18 co tries in Eastern Europe and the for Soviet bloc to provide phone, ca and media services. It has also sig similar agreements in two provi in China.

ERIC HOFFMANN/BW

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CHILE

A STRATEGY FOR ALL SEASONS

As Chile's "hybrid" economy dodges the Latin shock waves, it's the envy of the region

ENRIQUE SIQUEZ

Mexico's surprise peso devaluation in December sent powerful jolts through Latin America. The fragility of Argentina's economy was soon revealed, and some experts began worrying that all the nations that have opened up to free-market reforms would find themselves in trouble. But Chile, the long, thin country at the bottom of the continent, is buoyant with steadily increasing foreign reserves, falling inflation, and domestic savings that have reached East Asian proportions. "It's like having a nice house in a bad neighborhood," jokes Roberto de Andraca, the chairman of steel conglomerate CAP.

Chileans can be forgiven a little smugness. While recessions batter Mexico and Argentina, the country that started the region's market experiment two decades ago is racking up impressive gains. Gross domestic product will grow by an estimated 6% this year—as it has done, on average, for the past five years. Inflation has dropped to 8.3% annually from 27% in 1990, and Chile's trade surplus is widening. While a panicky capital flight forced drastic belt-tightening by Argentina to avoid devaluation of its peso, Chile's currency has climbed 7% against the dollar since Dec. 19 (charts, page 86E-10).

"HOUSE IN ORDER." That success is increasingly attributed to the "Chilean model." Although Chile's U.S.-educated technocrats started with University of Chicago-style radical reforms, they soon suffered a boom-and-bust in the early 1980s. In response, they gravitated to a distinctive hybrid system that guards against "hot money" flows from abroad while generating and channeling Chile's capital. As a result, the country is attracting big-ticket direct investments, vi its own companies are spreading t wings regionally. "This country has its house in order and now can take vantage of the very large mar around it," says Paolo Fresco, vice-c man of General Electric Co., which pects to double its 1994 Chilean sale $220 million, this year.

BUOYANT Billions are flowing into t Santiago bols and other capital mark

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ON A ROLL Goijberg's Madeco is one of Chile's new homegrown multinationals

HELEN HUGHES

integration means that Chile can probably sustain its success even if its bid to join the North American Free Trade Agreement stalls. Ministerial-level talks with the U.S., Canada, and Mexico on joining the NAFTA club are scheduled to start on June 7. Chile also can—and likely will—cut trade deals with Mercosur, the Southern Cone trade bloc made up of Brazil, Argentina, Uruguay, and Paraguay, and with the European Union. But the seal of economic good housekeeping represented by admission to NAFTA could remain elusive.

In Santiago, however, few seem to worry. That's because Chile's economy is being lifted by a powerful tide of direct investments generated mostly within Chile. Total i vestments in Ch rose to 28% of G last year, mainly nanced by domes savings that equal 25.4% of GDP. Ch "has done a specta ular job of increa ing domestic savings" with measur from privatizing pensions to taxing co porate dividends more than profits, sa Mexican Finance Secretary Guillerm Ortiz. "These are lessons that have be examined very carefully, not only Mexico but by many other countries.

One of Chile's lessons seems to that Latin nations have to be carel about dismantling all restrictions on ca ital flows, a notion at odds with orth dox free-market theory. Chile has shie ed itself against the shocks that afflict Mexico and Argentina by keeping tight rein on hot money. To avoid r peating the painful bust of the 198 the Chileans stipulate that foreign vestments must be kept in Chile for least a year and 30% of foreign cred must be deposited with the central ba for a year interest-free. Those a strong deterrents to short-term inve

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rs—and a key difference from the rategies of Mexico and Argentina.

In another departure from free-mar- t orthodoxy, Chile's central bank inter- nes in currency markets to keep the so's exchange rate competitive against asket of the dollar, the German mark, d the yen. This "managed float" helps ep Chilean exports—from forest prod- ts to manufactured goods—competi- e in its main markets: the U.S., the ropean Union, and Japan. By con- st, Argentina's fixed peso-dollar par- and Mexico's attempt to keep its so within an exchange rate "band" sulted in overvaluation of their curren- s and huge trade deficits.

Of course, Chile also is benefiting m sheer luck—high prices for com- dity exports from fish meal to steel d wood pulp. For copper, which ac- nts for 37% of Chile's exports, the ndon market price has climbed to und $1.25 per pound, up from an av- age 87¢ in 1993.

GER ROLE. But the surge in copper nings is also a result of fast-rising duction—the payoff from Chile's ening of copper mining to foreign in- stment in stages since the mid-1970s d its creation of a stable business en- onment. State-owned companies still trol nearly half the output of the per industry, but they were overtaken last year by production coming onstream from massive investments in new mines by companies such as Australia's BHP, Britain's RTZ, and Japan's Mitsubishi. By 2000, such private investments will push Chilean output to 4.1 million tons—40% of the world's total—up from 2.6 million tons this year.

Chile also is allowing foreign interests to play a much bigger role in the sensitive telecommunications field. Last year, the government agreed to allow foreign companies to compete for shares of Chile's long-distance phone market. A price war touched off by entrants such as the U.S.'s BellSouth and Bell Atlantic has benefited Chilean users by driving rates down sharply in recent months. And at least eight foreign companies, including MCI Communications Corp. and Sprint Corp., are eyeing newly opening cable and personal-communications markets.

Helping attract such investments is

How the Chilean Model Works

IT SPURS SAVINGS BY:

- Taxing corporate dividends more than profits
- Encouraging pension savings in privately managed funds
- Running a government budget surplus and paying down public debt

IT DETERS SPECULATIVE INFLOWS BY:

- Requiring foreign investors to keep capital in Chile for one year
- Requiring deposits of 30% of foreign loans at the central bank at no interest for one year

IT KEEPS EXPORTS COMPETITIVE BY:

- Managing the peso's exchange rate to keep it price-competitive against a basket of the dollar, German mark, and yen
- Rebating the 18% value-added tax to exporters

DATA: BUSINESS WEEK

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HOW HIGH?
Privatized CTC is thriving but faces foreign competition in telecom

the political stability Chile has regained since the stormy days of Marxist President Salvador Allende in the 1970s. With a century-long democratic tradition, Chile made a smooth transition back to democracy in 1990 after 17 years of rule by military strongman Augusto Pinochet, Allende's successor. "What has changed has been the political and business climate," says John W. Lill, president of the Chilean subsidiary of Toronto-based American Barrick Resources Corp. The company is investing $500 million between now and 2000 in Chilean mining.

The probusiness climate owes much to a broad, four-party governing coalition led by President Eduardo Frei's middle-of-the-road Christian Democratic Party. "Democracy and the market are on everyone's agenda," says Andrés Velasco, a fellow at Harvard University's John F. Kennedy School of Government and former Finance Ministry chief of staff. "In some sense, no matter who governs, basic policies are not going to change very much."

It's not surprising that the Chilean model is beginning to create homegrown multinationals. One pioneer is Madeco, a conglomerate with 1994 sales of $390 million worth of copper and aluminum products ranging from aluminum-foil potato-chip bags to high-voltage cables. To broaden its base, Madeco has made a string of acquisitions in Argentina and Peru, partly financed by a $63 million issue of American Depositary Receipts in New York. "Argentina, Peru, and Chile are one big market," says Andrés Goijberg, Madeco's head of management analysis.

Supermarket chain Santa Isabel, Chile's second-largest, is also building a broad regional base. It bought two small supermarket chains in Lima in 1993 to carve off a 22% market share just when Peru's economic reforms were taking hold. It is about to open two stores in Paraguay, and it hopes to issue ADRs. "You have to grow or you'll disappear," says Santa Isabel Chairman
uardo Elberg.

In 1990, CTC, Chile's privatized t
communications company, was the
Latin American company to issue A
So far, 18 Chilean companies have
them—a total of $1.7 billion last
alone—mostly to finance cross-bo
investments. And at home, inves
are able to tap Chilean capital mar
that were swelled by domestic sav
totaling $13.2 billion last year, ou
the country's $52 billion GDP.

HARD-WON. One source is the pen
fund system, which is run by 18
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sets currently worth $22 billion,
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Chilean financial markets. These
kets are able to sell Chilean corpo
bonds with maturities up to 30 y
and to finance home buyers with
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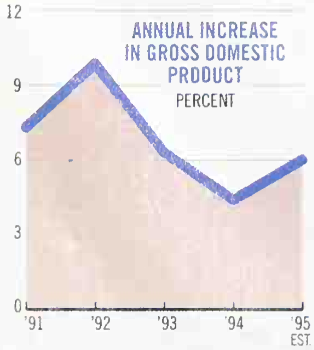
Latin countries.

Such gains have been hard-won.
though many Chileans who opp
Pinochet's ironfisted rule now ackn
edge that he was right to force
economy open, few forget the pain o
restructuring, which threw 22% of
workforce out of jobs. Nearly one-t
of Chileans continue to live in pov
earning less than $100 a month. Spr
ing the wealth a bit will be cruci
Chile's long-term success. "Our big
challenge is to integrate Chileans
are outside the system," says Econ
Minister Alvaro García.

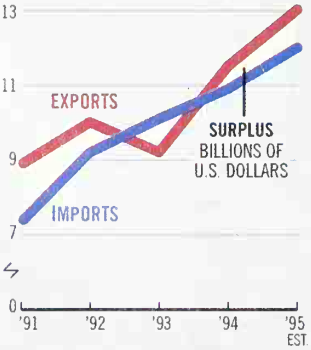
He sees sustained growth as the
swer. To keep growing at 6% to 7%
nually, he estimates, Chile needs t
vest 30% of GDP—not a big leap
last year's 28%. If that happens,
will be on its way to joining the r
of the developed nations, with or w
out NAFTA.

By Susan Jackson in Santiago,
John Pearson in New York

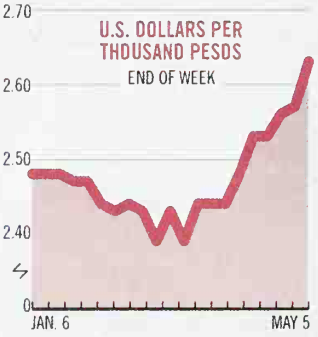
CHILE'S ECONOMIC GROWTH IS STRONG...



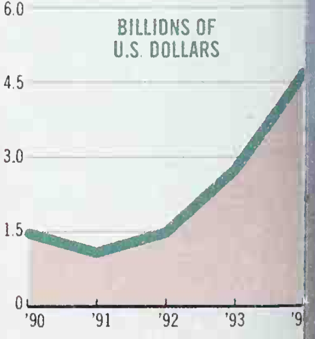
...THE TRADE SURPLUS HAS WIDENED...



...AND ITS PESO IS GETTING STRONGER...

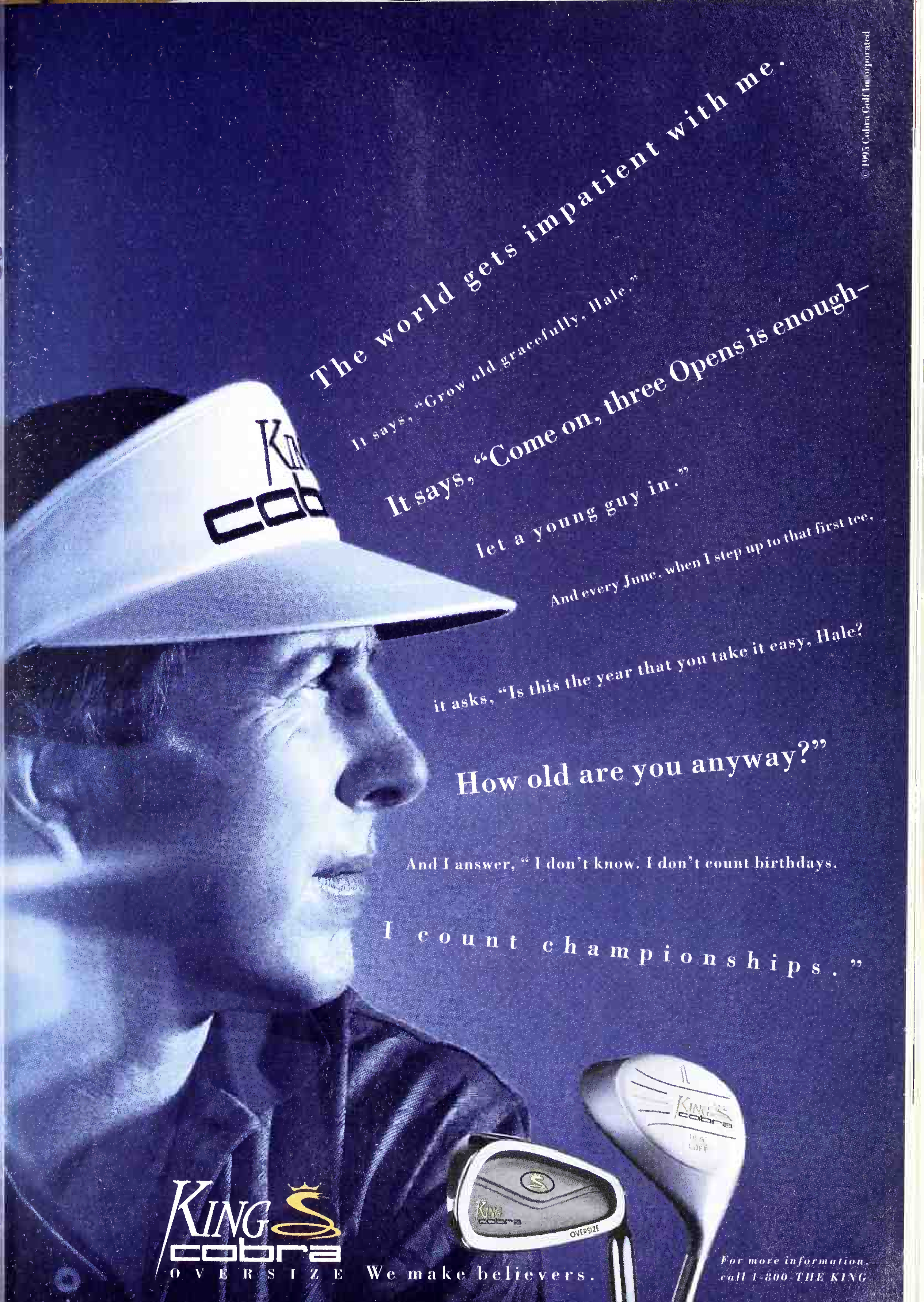


...WHILE LONG-TERM INVESTMENT ROLLS IN



DATA: CHILEAN CENTRAL BANK, CHILEAN FOREIGN INVESTMENT COMMITTEE, BUSINESS WEEK EST.

PHOTOGRAPH BY HELEN HUGHES; CHARTS BY ALAN BASEDEN


The world gets impatient with me.

It says, "Grow old gracefully, Hale."

It says, "Come on, three Opens is enough–

let a young guy in."

And every June, when I step up to that first tee,

it asks, "Is this the year that you take it easy, Hale?

How old are you anyway?"

And I answer, "I don't know. I don't count birthdays.

I count championships."

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CAMPTON

MEETING PLACE

86E12

evelopments to Watch

TED BY PETER COY

ETTER ISIN THE SUN

VESTING RAISINS IS ONE griculture's great pains. fornia's Thompson Seed- grapes don't ripen until end of August, when the ther is too cool for them y on the vine. Research- ave dreamed of creating veet grape that ripens y enough to dry on the instead of in trays.

the early 1980s, U. S. culture Dept. research- n Fresno, Calif., invented chnique for doing just . They cross-pollinated less grapes—extracting tiny embryo—to create new seedless varieties. After much tinkering, USDA researcher David W. Ramming has shipped the first cuttings of his new grapes, called DOVine, for "dried-on-the-vine," and pronounced "divine." The world's first successful hybrid of two seedless grapes, they could change how raisins are harvested. Because they ripen to peak maturity 14 to 17 days earlier than Thompson grapes, shoots can be cut from the vine and left on trellises to dry in the warm breezes. Once dried, the fruit can be shaken from the canes by machines rather than hand-harvested. And the taste? "Plumper and sweeter than other raisins," Ramming declares.

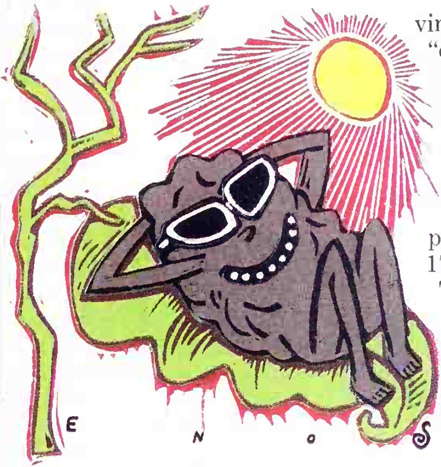


ILLUSTRATION BY RANDALL ENOS

LOGRAMS SHOW THEIR TRUE COLORS

TROIT LOVES THE IDEA OF USING HOLOGRAMS TO TRY future car designs. There's just one problem: Those ostly vehicles, seemingly suspended in three-dimen- nal space, don't look precisely the same from every rtical viewing angle. A tall engineer perceives colors shininess differently from a short engineer, who s the hologram from a different angle. Auto makers 't make decisions about a car's design if they can't n agree what it would really look like.

American Propylaea Corp., which is located in Bir- gham, Mich., thinks that it has the problem licked. the past few weeks, Hans Bjelkhagen, the vice-presi- t for research and development of the holography npany, has developed a set of color emulsions that go o the "holographic optical element"—the screen that duces the floating hologram when it's illuminated. emulsions eliminate the color shift that's responsible the variations when viewed from different vertical wing angles, Bjelkhagen says.

EARCHING THE TY-GRITTY OF LITY CONTROL

ORATE AMERICA AND National Science Foun- n are putting $9 million three years into rigor- esearch on quality im- ment. The aim is to get nd anecdotes and find hat methods dependably ve quality and overall corporate performance.

The studies resemble work that the Japanese Union of Scientists & Engineers, sponsor of the annual Deming Prize, has conducted since the 1960s, says David B. Luther, president of the American Society for Quality Control, a co-sponsor of the project along with the Total Quality Forum. Says Luther: "For the first time, we're going after no-kidding results."

IS THAT AN EARTH STATION IN YOUR POCKET?

FOR GLOBE-TROTTING EXECS, it'll soon be easier to stay in touch—even from the Sahara. This summer, Mobile Satellite Products Corp. in Hauppauge, N. Y., will unveil the Mini-Lynxx. The "anywhere" phone crams a satellite-communications earth station into a package little bigger than a laptop PC. At 10 pounds and 12 x 10 x 3 inches, it's half the heft of competing phones, MobileSat claims.

The $13,000 Mini-Lynxx stems from a collaboration between MobileSat and Israel's Rafael Development Corp., a government-industry venture formed to spin off defense secrets. Rafael adapted previously classified military antenna technology that can pick up extremely faint signals. As a result, the fold-out antenna has shrunk to only two panels, each slightly larger than a sheet of stationery. Rafael is working on a much smaller pole-type antenna that will make possible satellite phones the size of today's cellular models.

PURIFYING WATER FOR A PENNY A TON

MORE THAN TWO-THIRDS of the world's people still go outside their homes to fetch water—water that is often tainted with bacteria and other harmful micro-organisms. The World Health Organization reports that waterborne diseases such as cholera, typhoid fever, and dysentery kill more than 400 children an hour in developing countries.

Searching for an affordable remedy, researchers at Lawrence Berkeley Laboratory, an Energy Dept. lab in Berkeley, Calif., have developed an efficient ultraviolet-light system that is capable of purifying a ton of water for just 1¢. Physicist Ashok J. Gadgil estimates that a $500 unit could supply 2,200 people.

Gadgil crafted a steel box lined along the top with fluorescent tubes lacking the usual phosphor glazing that normally would absorb UV light. The lamps purify the water passing below by exposing it to ultraviolet radiation.

Water that goes in with 1,000 units of *E. coli* bacteria per milliliter comes out completely free of *E. coli*. The system is capable of churning out about 7 gallons of clean water a minute.

Because UV light does not kill giardia or cryptospiridium, intestinal parasites, Gadgil recommends using a sand filter to stop them in areas where they are a problem. Prototypes are being field-tested in India with funding from U.S. agencies and private philanthropies.

AUDIO

CAN YOU BELIEVE YOUR EARS?

In PCs, the sound may finally get as good as the picture

The search for realistic, concert-hall-quality sound has led audio equipment makers down some strange paths. Remember the quadraphonic craze of the early 1970s? Instead of two speakers, you needed four—and at least one manufacturer suggested a fifth, mounted on the ceiling. Or QSound, whose 1980s promoters proved more successful at selling stock than licenses for its three-dimensional sound?

Now, a new audio wave is gathering—and this time, the soundmeisters insist they've got it right. After a string of false starts, a half-dozen companies are trying to create the illusion of 3-D sound from just two speakers. What's driving them is 1990s-style multimedia, whose richly interactive games and educational programs need better sound than today's audio-equipped personal computers can deliver. "This technology fills that void," says Mal D. Ransom, marketing vice-president at Packard Bell Electronics Inc. in Westlake Village, Calif., the top seller of home PCs.

Since February, Packard Bell has been building 3-D sound into every multimedia PC it ships, using technology licensed from SRS Labs Inc. in Irvine, Calif. SRS—for sound retrieval system—first popped up in 1989 on top-of-the-line big-screen TVs from RCA and Sony. Hughes Aircraft Co., which invented the technology to enhance in-flight movies, sold it off in 1993 to the unit's managers. Last year, they sold 60% to Thomas C. K. Yuen, a founder of computer maker AST Research Inc. Packard Bell owns another 8%.

Other sound companies have jumped on the multimedia bandwagon, too. A humbled and restructured QSound Labs Inc. licensed its stereo-enhancement technology to Creative Labs Inc., the country's largest maker of PC sound cards, as well as to Capcom USA Inc., best known for its Street Fighter video games. A third company, Spatializer Audio Laboratories Inc., has deals with game maker Interplay Productions and chipmaker ESS Technology, and is plannin
package its 3-D audio chip as an acce
ry for home PCs and stereo syste
Consumer electronics giant Matsus
Electric Industrial Co. designed Spa
izer's mathematical formulas, or a
rithms, into chips for its boom boxe

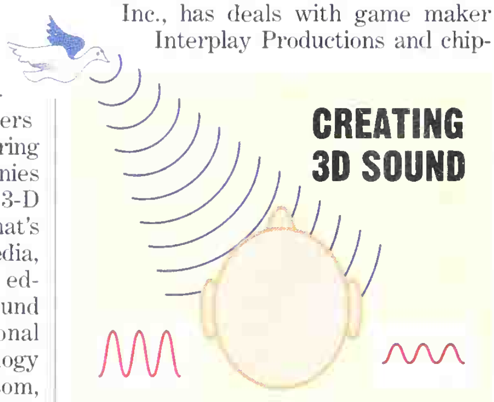
All the 3-D sound companies use
ilar psychoacoustic techniques to
their magic. The effect may be anyt
from an engulfing symphony of rain
est sounds to the clash of rock rhyt
bouncing from the rear walls of a
cert hall. Some companies, inclu
QSound and Spatializer, can achieve
effect by encoding the sound in a st
and inserting delays in the left or
track. That lets them simulate di
ences in the time it takes for so
waves on one side of the listene
reach the opposite ear. Others, suc
SRS, amplify only the frequencies
the brain uses to locate a sound.
makes all the difference when yo
watching a movie in your home the
says Sony Electronics Inc. Senior
President James M. Palumbo. "W
the telephone rings in the movie,
wheel around and reach for it."

SOUND ARC. That's a far cry from
ventional stereo. While stereo arrays
ferent instruments or voices on a
plane between the two speakers,
audio describes an expanded fiel
sound—a broad arc starting at the
ear and curving around to the right.
video game, for example, that means
player could hear an enemy jet fig
approach, take a hit, and explode so
where off his or her left shoulder.

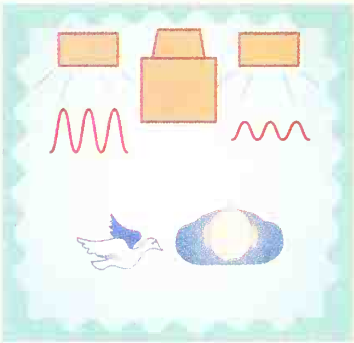
To explain how SRS acoustics w
inventor Arnold I. Klayman sugg
a simple experim
Hold out your han
rectly in front of
and snap your fing
Your outer ear wil
flect much of the s
away from the ea
nal, and both ears
hear the same so
But as you move
hand around to
right, the snap g
louder in the right
The pitch also ch
es, because the o
ear emphasizes s
frequencies and de
others. For exam
the ear may hear s
treble sounds be
when they come
the side.

To mimic that e
SRS dissects the

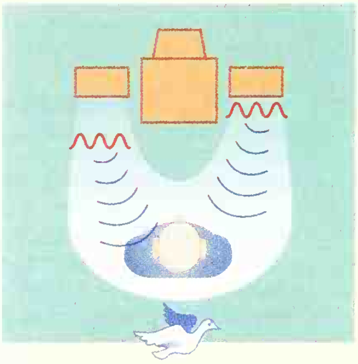
CREATING 3D SOUND



Perception of a sound's location is determined by variations in time, loudness, and frequency of the sound waves as they reach each ear.



Boosting certain frequencies that provide clues to a sound's location in the room, the SRS and Spatializer systems create the illusion of ambient sounds coming from the listener's side, instead of the front.



Varying the timing of sounds from different speakers, QSound and Spatializer systems can precisely position a sound in a specific place in the room—but only when the listener is seated in the "sweet spot."

LISA KNOUSE BRAIMAN/BW

ignal, subtracting the left channel the right, and boosts the resulting al to match the frequency curves tell the ear where sounds are com-'rom. It does the same on the left, combines the processed parts back the original stereo signal. The re-Ambient sounds on the right seem ome directly from the side, rather from the right speaker.

)atializer uses the same ambient l information—the differences be-n the left and right channels—but esses it differently. The ear can't where bass sounds originate, and e wavelengths are too short to be ced by the outer ear. So Spatializer ifies the midrange portions of the l. Then it adds short time delays, ent for each frequency, to partially l the sound the opposing ear hears. tricks the brain into thinking the l hits one ear before the other, cre-a spaciousness extending beyond tereo speakers.

TIER GAMES. QSound takes an en-different approach. It adds ef-during production, splitting mon-signals for each sound into left right components to place the l where it wants it. The company adds time delays, to bring sounds ard and even behind the listener. nd's technology produces the most ing sound effects of the three, -like stereo—the illusion is limited small "sweet spot" centered be-n the speakers.

at limitation led to QSound's earli-dio debacle. But it's not a problem multimedia world, since computer generally sit in one position: right ont of the PC. Says Perry Cook, ical director at the Center for outer Research in Music and stics at Stanford University: "Mul-ia almost guarantees that the lis-'s head is in the right place."

nost of companies is trying to du-e QSound's encoding techniques. ighest-profile customer—Creative which makes SoundBlaster sound —has its own encoding scheme to computer game sounds more re-. And startup Crystal River Engi-ng, in Palo Alto, Calif., is trying nder 3-D sound with standard sig-rocessing chips.

10 will win the multimedia sweep-s—systems that encode the sound 3-D effect, or those that derive it the existing audio signal? Com-industry analysts say the intend-ultimedia applications are still so t's impossible to tell. Either way, ers will soon get sound matching ildest new PC graphics. And stereo ever sound the same.

Larry Armstrong in Los Angeles

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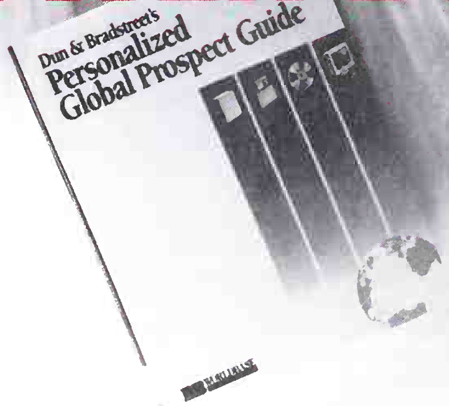
POWER BOOK



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SHH! YOU'RE ONLINE: *Browsing on the*
Internet at a San Francisco libra

RICHARD MORGANSTEIN

ONLINE SERVICES

WELCOME TO THE CY-BRARY

In the digital age, libraries face some tough questions

In the coming digital, online world, the public libraries will: (a) languish as outdated, expensive artifacts of an earlier age, or (b) adapt and thrive as key resources on the Internet and as public on-ramps to the Information Superhighway.

If you answered (b), you're in good company. Encouraged by everyone from Al Gore to Newt Gingrich, library administrators across the U.S. are determined to carve out a key role for their institutions in the digital age. In addition to ferrying local citizens into cyberspace, librarians are counting on technology to extend their patronage beyond the immediate neighborhood: Working closely with technology companies, they are digitizing collections for delivery over the Internet to local, national, and even global audiences.

The passage is hardly proving effortless. It's not clear, for instance, what level of I-way service libraries will be able to afford or be allowed to give away—channels of interactive video programming, or just text-only Internet service, for instance? Also, even if billions of taxpayer dollars were available to get all 15,872 of the nation's public libraries and branches online—which there aren't—legal issues still must be considered. Stocking reference works and lending books is one thing. Dispensing digital copies raises uncharted co
right issues. "We're moving from a
ation where libraries own books t
where all they do is lease the use
formation," says Karen Coyle, a tech
specialist in library automation at
University of California. "It's an en
ly different legal basis for the exist
of libraries." One possible solutio
brarians are lobbying for copyright
that permit limited copying by the
lic of electronic materials.

Some libraries are wasting no
getting wired. Patrons visiting an
the San Francisco Public Library'
odd branches can now surf the Inte
from public terminals. By next ye
braries in the Bay Area will gain I
net access to the city library's D
Equipment Corp. Alpha-based se
which will dish out items from a
ing multimedia archive. First to g
line will be a collection of some 40
pieces of sheet music, available lo
and eventually across the entire I
net, says librarian Kenneth E. D
That will open the archive to mil
yet preserve the aging originals.

BUDGET SQUEEZE. The San Fran
project gets a big boost from Si
Valley, an hour's drive to the s
Technology companies, together
16,000 San Franciscans, have co
uted $30 million to a city-library fo
tion. That's helping Dowlin, who's k
in library circles for his 1984 book
Electronic Library, to fund develop
of library technology. One proje
aimed at creating an electronic car
alog that indexes both the library's
materials and material on the Inte

Many, perhaps most, of the na
public libraries, though, can only d
of a digital future. The tremendous
sure on municipal and county bu
which on average provide 79% of a
munity library's funds, makes it
cult for many of them to simply
open. Washington contributes onl
per citizen for library spending.
this year, the Commerce Dept.'s

Hi-Tech Companies Pitch In

BELL ATLANTIC Lobbying the Federal Communications Commission to redirect $2 billion over six years to libraries and schools.

BELLCORE Provided Internet links to 32 libraries in Morris County, N.J.

GTE CALIFORNIA Offering $5.5 million
credits to libraries an
schools.

MCI Will donate
$500,000 over three
years to help libraries
eight cities buy gear a
train staff.

DATA: BUSINESS WEEK

al Telecommunications & Informa-
Administration grants, used by sev-
libraries to fund technology proj-
, have been slashed from $64 million
34 million.

here's some sentiment in Congress
ncourage electronic libraries, but no
ey. One amendment to the Senate's
ently pending telecommunications-
gulation bill, for example, calls for
ibraries to get "affordable" access
s to communications networks. "We
lots of good words about the li-
y as a self-help institution and how
npowers people," says Carol C. Hen-
on, chief lobbyist at the American
ary Assn. (ALA). "But the drive for
lanced budget and tax cuts puts an
mous squeeze on social spending."

NDLY GIANTS. For a few lucky li-
ies, one answer to the funding prob-
is private industry. Makers of com-
rs and communications gear are
; libraries to hone their skills in di-
ing, organizing, and distributing
ronic information—and tracking
should pay what. IBM, for instance,
nating PCs to the New York Public
ary's new science, industry, and
ıess wing. Meanwhile, the company
ust launched a set of products and
ces to help private companies and
ic institutions create large-scale
tal libraries." Customers have "only
ized 10% of all the information
s out there," says Steve Mills, gen-
manager of IBM's Software Solu-
Div.

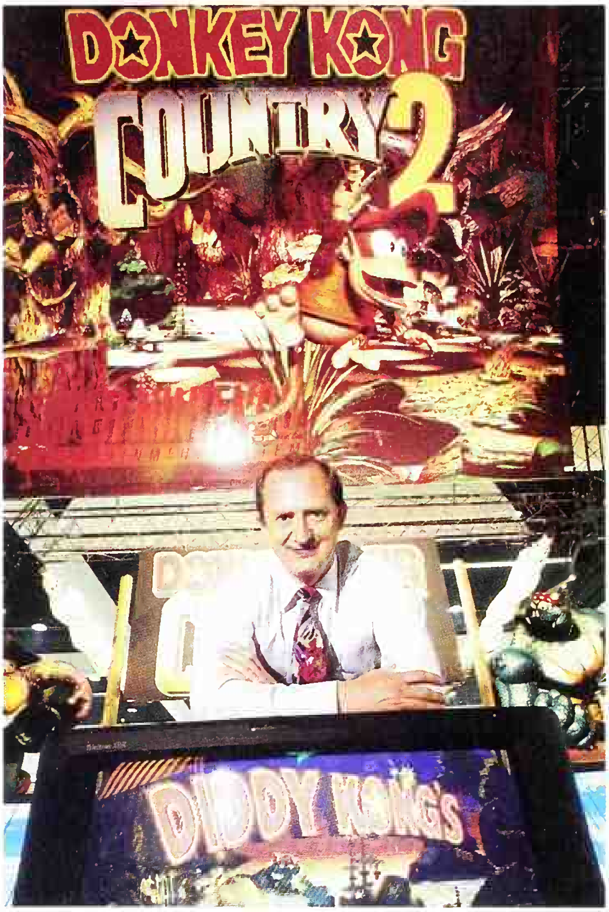
any telecommunications companies
leaping at the chance to donate
;, equipment, and services to public
ries. It's good public relations, and
uld help preempt mandates that
d call for subsidies to connect li-
es, schools, and poor people to the
y. MCI Communications Corp., for
nce, has a program called Library-
that will give libraries in eight cit-
500,000 in PC equipment and staff
ing (table).

eanwhile, the ALA and Libraries for
Future, a library users' advocacy
), are lobbying local, state, and fed-
governments. The ALA has its eye
huge prize: It wants a share of
stimated $5 billion that the Feder-
mmunications Commission is rais-
y auctioning radio-frequency licens-
ıd a chunk of the $300 million a
in excess funds that local phone
anies collect for connecting long-
nce calls. "We want to share in not
taxes but in the profits generated
ne Info Highway," says Betty J.
k, president-elect of the ALA. And
money comes through, libraries
urely be some of the most impor-
destinations on that I-way.

By John W. Verity in New York

KILLER INSTINCT FOR HIRE

To keep its lead in games, Nintendo called on Britain's Rare



KING OF KONGS Rare's Chris Stamper must keep cranking out hits like Donkey Kong Country, which sold 7.4 million copies

ALAN LEVENSON

In the massive Nintendo booth at the bustling Los Angeles Electronic Entertainment Expo, "Killer Instinct" is the order of the day. Booth attendants pass out pewter pins and temporary tattoos with the logo for the violent new video game. Blondes in figure-hugging costumes pose for pictures with well-muscled hunks in "KI" fighting garb. Easily overlooked amid all the hullabaloo are two shy and softspoken Englishmen, the creators of Killer Instinct: Christopher Stamper, 36, and brother Timothy, 34, of Rare Ltd.

The Stamper brothers are on hand because they are now central characters in a new game that Nintendo Co. is playing. The No. 1 producer of video game players badly needs hot new software to keep the lead in the next generation of hardware. So in April, Nintendo plunked down an estimated $39.5 million for a 25% stake in Rare—its first investment in a video game developer outside of Japan. Nintendo is hoping that the Stampers can come up with another hit on the order of its Donkey Kong Country, a runaway bestseller last Christmas. With over 7.4 million copies sold, DKC has racked up revenues of $450 million for Nintendo, which makes and sells the game cartridges. Rare has netted some $32 million in royalties.

"FELL IN LOVE." Not bad, considering Rare's simple beginnings. In 1981, Chris Stamper, halfway to a degree in electronics and physics, said farewell to Loughborough University of Technology in Leicestershire. He was spending more and more time in the computer lab and decided to "jack it in" and pursue computer programming on his own. He started on a computer that he made with an 8-bit processor while at the university. "The weather in the UK is not always ideal to be out in," said Chris. "The computer can sometimes be like a friend. I fell in love." He soon persuaded brothers Tim and Stephen, now 31, to join him.

They launched a company, Ultimate Play the Game, in the cramped four-room row house next door to their parents' corner news shop. First, they developed games for the home computers then sweeping Britain—Sinclair ZX Spectrums and Commodore 64s. But there was no way to keep people from pirating their work, so they gravitated to cartridge-based video games, which can't be easily copied. The change in tactics also led to an identity change. The name Rare was chosen the same way they decide upon titles for games: sitting down with a thesaurus until they hit on something that sounds good.

When Chris first asked Nintendo for the programming codes needed to write Nintendo games, the Japanese giant turned him away. At the time—1983—the company was riding high on titles produced in-house such as the original Mario Bros. Undeterred, Stamper spent six months cracking the Nintendo code. At his next meeting with Nintendo, he arrived carrying a skiing game called Slalom under his arm. This time his reception was decidedly warmer. Nintendo bought the game for an undisclosed amount and went on to sell about 500,000 units.

In the intervening years, Rare has created over 60 games, including R. C. Pro-Am Racing and Cobra Triangle, for the Nintendo system as well as titles for other game platforms. Today, Rare employs 84 people and is headquartered in a dilapidated 280-year-old farmhouse in Twycross, Warwickshire, 20 miles northeast of Birmingham. The brothers renovated the rustic office room by room as they needed the space to park progammers and their Silicon Graphics Inc. workstations. The enterprise remains very much a family business, employing six additional members of the extended family and assorted university friends.

Video Games: A British Export

TOP DEVELOPERS	TITLES	UNITS SHIPPED (MILLIONS)
PROBE ENTERTAINMENT	Mortal Kombat I	6.0
ARGONAUT SOFTWARE	StarFox	3.8
RARE	Donkey Kong Country	7.4
	R.C. Pro-Am Racing	2.3

DATA: COMPANY REPORTS, BUSINESS WEEK

HIGH-END HEADACHES. Although the Stamper brothers now sit atop a company valued at approximately $158 million, they remain focused on their mission. Tim, the managing director, still works on a team as a graphic designer and created several of the backgrounds for Donkey Kong Country. Youngest brother Stephen, described as "the quiet one," is director of operations and oversees the more practical issues of the company. His current chore: Planning a new headquarters. Chris, chairman and technical director, still writes code and is currently working on a hush-hush project for 1996.

The brothers almost never give interviews and live a pretty low-profile life. Tim is married to Carole, Rare's financial director, and Chris recently became engaged. An admitted workaholic, Rare's top man says that the brothers will continue to put in 15-hour days. "We feel that a 9-to-5 work ethic produces a 9-to-5-type of game," says the senior Stamper.

The Nintendo deal is certain to bring big changes for Rare. For starters, the company is about to triple to about 250 employees so it can come up with the complex programming for the next generation of games. There's a rush to produce a blockbuster for Nintendo because the competition is gaining: No. 2 game maker Sega of America Inc., which has 46.5% of the 16-bit market, compared with Nintendo's 52.5% share, has already introduced its next-generation player, called Saturn. And Sony Corp. has plunged into the video game arena with the new Sony PlayStation, a high-end CD-ROM-based system. Nintendo has disclosed that it will not be able to produce its long-awaited Ultra-64 system until next spring, missing the vital Christmas selling season, when 70% of all video game machines are bought.

Nintendo can make up for a late start if Rare is able to come through. "It's going to take some time to fully exploit the Ultra 64 hardware capabilities," says Howard C. Lincoln, chairman of Nintendo of America Inc. "I'm sure these talented people are the ones to do it," he says.

Nintendo isn't the only one to have discovered top-flight software developers in Britain. According to London-based Durlacher & Co., fully 40% of the world's video games are written in Britain. And in the past two years, half of Britain's game-software companies have been acquired by or forged deals with major hardware makers and publishers. "The giants have now recognized the value of the developers," says Durlacher analyst Geoffrey Chamberlain. Indeed, with the potential to crank out crowd-pleasers such as Donkey Kong Country, game developers are being treated like rock stars. Tim Steer, an analyst at Smith New Court Securities Ltd., has even labeled the Stamper brothers the "new Beatles." If that's so, then Nintendo may have just given them their ticket to ride.

By Heidi Dawley in London with Paul M. Eng in Los Angeles

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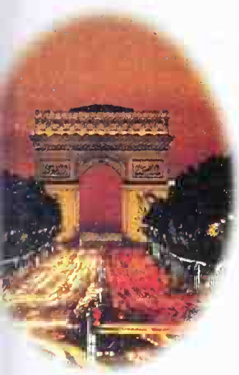

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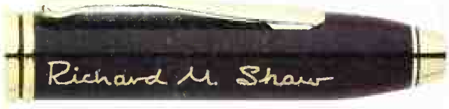

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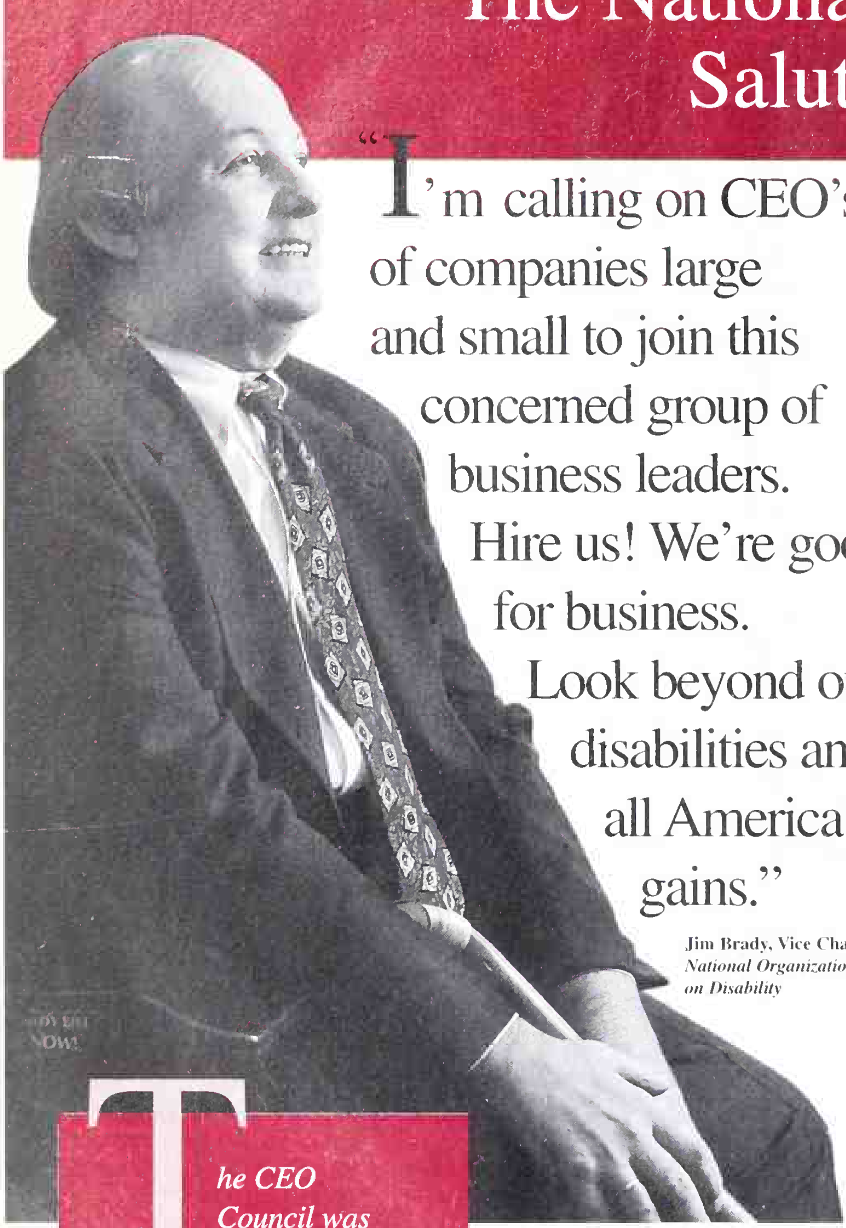

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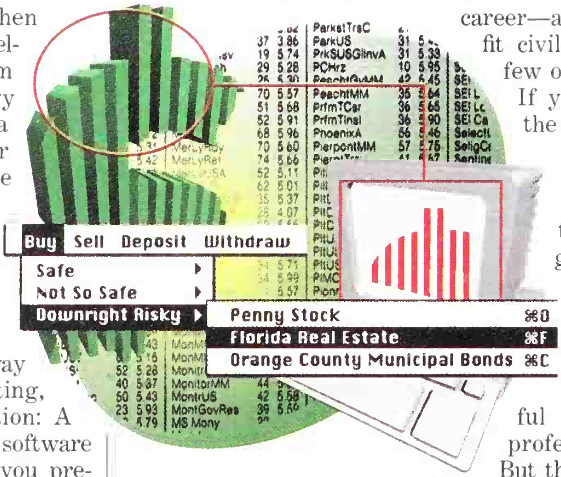


Time was when trying to develop a long-term financial strategy meant dealing with a professional planner who might charge steep fees or steer you toward those investment products that would pay big commissions. But thanks to the revolution that's under way in personal computing, there's another option: A proliferation of new software programs can help you prepare for retirement, fund your children's education, and reach other major financial goals.

Although making even the slightest change in the underlying assumptions about inflation, tax rates, investment returns, and income can cause dramatic swings in the projections, these programs can help you assess whether you're headed in the right direction—and possibly spare you a nasty surprise on the day of reckoning. And while none of the programs attempts to select specific investments, some of them offer asset-allocation advice based on your age and risk tolerance.

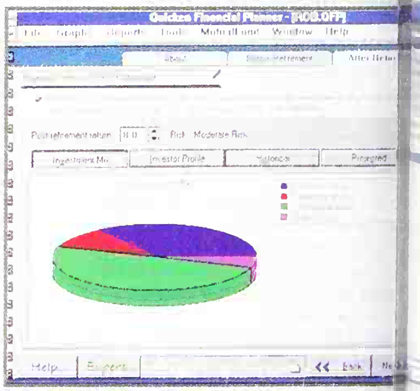
PULL-DOWN MENUS. If you're one of the many people who have lingering phobias about finances and computers, Quicken Financial Planner may relieve you of both these fears. From Intuit, the maker of the popular Quicken home-budgeting program, the Financial Planner provides generous help screens, tutorials from noted financial columnist Jane Bryant Quinn, and colorful charts and graphs to demystify the whole process. And while some programs on the market give only a lump-sum estimate of how much your defined goals are going to cost and how much savings you'll have, Quicken provides a detailed grid showing year-by-year projections of your expected income, cash flow, and expenses—from now until your 125th birthday, if you think you'll live so long.

What's more, Quicken is among the surprisingly few programs that allow you to distinguish each spouse's income and retirement benefits and to project periodic changes for either person. This capability enables you to estimate the overall effect if, say, one spouse quits work for several years—to stay home with a child or return to school—and then reenters the workforce at a sharply higher or lower salary. By contrast, many lower-cost programs force users to enter the combined household income and the average annual change they expect over the course of their career—a design that might fit civil-service types, but few others.

If you can do without the coddling, Price Waterhouse has the Retirement Planning System and two other programs—for education and survivor income (covering insurance and estate matters)—that are as powerful as anything a professional might use. But the Price Waterhouse offerings are more like computational tools than instructional programs. The programs forgo snazzy graphics. After you enter some preliminary data, each program gives you summary screens that allow you to change, say, the projected inflation rate and instantly see the effect on the rest of the equation. Other titles, including retirement programs from Fidelity Investments and T. Rowe Price Associates, require so much flipping back and forth between screens that it might discourage you from running too many "what if" scenarios.

While some titles such as Fidelity Retirement Planning Thinkware rely merely on actuarial data for key determinants such as life expectancy, Price Waterhouse—to its credit—provides additi explanations for many of assumptions that it use determine whether you'l able to meet your g While the Fidelity prog operates on the premise you'll draw down your ings principal during re ment, Price Waterhouse you calculate the effect dipping into principal vs. skimming off the interest accrues.

LEASE OR BUY? Price Wa house is no longer the accounting firm that has own software: Ernst Young recently began ma keting a comprehensive p ning program, Prosper, w is largely a clone of Re Online's WealthBuilder, ware that has been on market for several ye (Prosper includes a few ditional calculators, inclu one for 401(k) plans, ar doesn't offer any direct cess to an online broke for electronic trading—u WealthBuilder.) While nei



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PROGRAM/PUBLISHER	STREET PRICE	COMMENTS
FIDELITY RETIREMENT PLANNING THINKWARE FIDELITY INVESTMENTS	$15	Value is largely educational, showing virtues of saving early. Little flexibility to override assumptions on life expectancy, Social Security, etc.
JONATHAN POND'S PERSONAL FINANCIAL PLANNER VERTIGO DEVELOPMENT	$40 $50 CD-ROM	More an electronic book than a computational tool. 33 worksheets and quizzes in 235-page primer.
PRICE WATERHOUSE RETIREMENT PLANNING SYSTEM PRICE WATERHOUSE	$45	Also offers $45 education and survivor income programs, and $15 "lite" versions of retirement and education.
QUICKEN FINANCIAL PLANNER INTUIT	$40	Lets user distinguish each spouse's income and retirement benefits, and to project periodic changes.
QUICKEN PARENTS' GUIDE TO MONEY INTUIT	$30 CD-ROM	An electronic book that covers such topics as child-care costs, insurance needs, and family budgeting.
WEALTHBUILDER (a.k.a. ERNST & YOUNG'S PROSPER) REALITY ONLINE	$100	Strong portfolio-management capabilities. Includes Reuters Money Network, a $10 to $25 per month online service.

DATA: BUSINESS WEEK

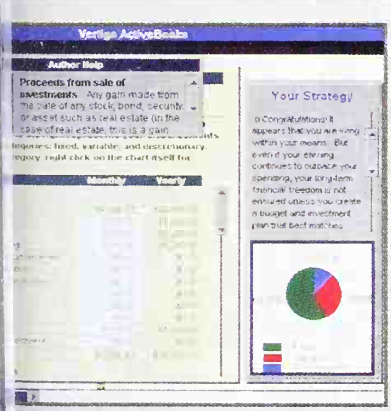
books interface, which combines distinct text with interactive worksheets and video clips into what it calls "electronic books."

But most of these programs come up short: The reading content is thin, the worksheets aren't as robust as in other programs, and the software lacks easy menus and strong hypertext capabilities that would let you jump around quickly among topics. The weakest program is Parents' Guide, which projects child-care costs by "regional averages"—in effect, giving the same estimate for residents of affluent McLean, Va., as for those of rural Culpepper, Va.

RISK VS. REWARD. Also disappointing are the low-cost retirement programs offered by three of the large mutual-fund families: Fidelity, Vanguard, and T. Rowe Price. The developers of each have cut enough corners—perhaps aiming to keep prices below $20—that the programs provide only a snapshot, rather than a detailed portrait, of your retirement prospects. The Fidelity program, for example, ignores the impact of taxes altogether in projecting the savings you'll need. Each program does include a soft sell for its family of funds, although mercifully at the end.

The best of the three: Vanguard, which includes an impressive asset-allocation section that shows the risk-reward trade-off between stocks and bonds. It lets you see how portfolios with different mixes of stocks and bonds performed all the way back to 1926.

Still, all of the mutual-fund programs do provide an educational service, showing the virtues of saving early. And when it comes to financial planning for major life events, you can't have too much information—and you can't start too soon. *Dean Foust*



Proceeds from sale of investments Any gain made from the sale of any stock, bond, security, or asset such as real estate (in the case of real estate, this is a gain

Congratulations! It appears that you are living within your means. But even if your earning continues to outpace your spending, your long-term financial freedom is not ensured unless you create a budget and investment plan that best matches

ɪN POND'S FINANCIAL PLANNER

ext, video clips, and interactive
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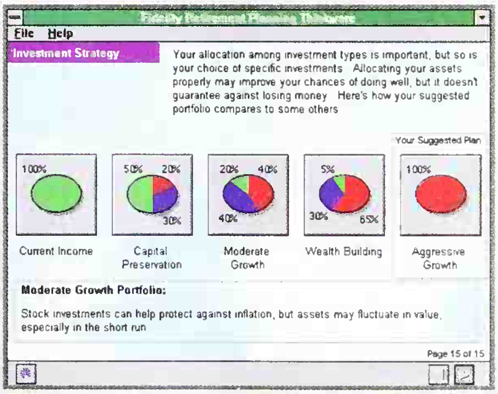
: quiz at the start of each chapter
n a package with WealthBuilder



Your allocation among investment types is important, but so is your choice of specific investments. Allocating your assets properly may improve your chances of doing well, but it doesn't guarantee against losing money. Here's how your suggested portfolio compares to some others.

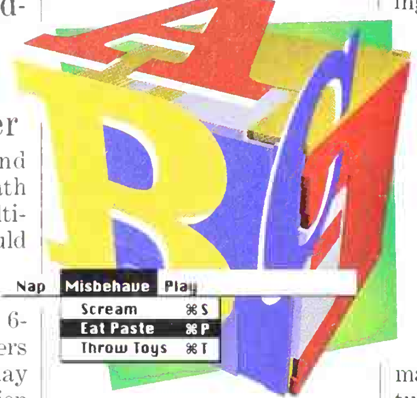
Moderate Growth Portfolio:

Stock investments can help protect against inflation, but assets may fluctuate in value, especially in the short run.

FIDELITY THINKWARE

- A program whose value is more educational than computational
- Soft sell for Fidelity funds at the end
- No allowance for the effect of taxes

A CHILD'S GARDEN OF SOFTWARE



I enjoyed being a toddler–from what I can recall. But if I had it to do all over again, I would kick and scream and hold my breath until my parents got a multimedia computer that could run the newest preschool software.

For parents of 2- to 6-year-olds, this software offers a form of educational play that is an invaluable addition to Tonka trucks and Barbie dolls. Most programs are remarkably creative and entertaining. Kids as young as 2 love to sit on their parents' laps and watch, while older kids become mesmerized by the things they can do. After reviewing several dozen products, I've picked some favorites. Most cost about $40, and some work on both Windows and Macintosh systems.

FAMILY VALUES. Why Do We Have To? offers an amusing look at rules kids despise, such as "clean your room" and "share your toys." Animated cartoon characters, led by Lester Lion, start out playing in a clubhouse without using rules—and end up fighting and deciding rules are worthwhile after all.

Featuring a family motif, Fisher-Price's Dream Doll House is one of the few programs aimed at girls, although my 2-year-old son cried when I dragged him away. Each room has toys and figures that become animated when you click on them, such as a vacuum that cleans up messes.

Examples of preschool computing at its best are reference books previously inaccessible to young children. One is My First Encyclopedia. Its central image is a giant "tree of learning" with lots of objects on its branches representing topics such as animals or anatomy. Clicking on an object triggers a video of a kid explaining the meaning of a word. The main drawback: You can't simply type in a word and get a definition.

TINY TUNES. Two worthwhile early-reading and -writing programs are Fisher-Price's ABC's and Fisher-Price's 1-2-3's. The ABC's program features a "jungle jukebox," which plays a little song about each letter. It also provides simple games, such as matching a letter with a picture. Kids have to find coins hidden in a café where the game takes place—then use the coins to start the jukebox. The 1-2-3 game uses animated "counting critters" to help kids learn numbers up to 10 in such settings as a snack shop.

HOME SOFTWARE
PRESCHOOL

The most bizarre program has to be Bug Adventure, which is filled with zany videos of real bugs. There's a shot of a praying mantis catching a spider, and—this was a first for me—a spider catching and eating a fish. The subjects are great, but video quality could be better.

Popular picture book a often translated into com er games, and the newe re volves around illust Richard Scarry's *How T Work in Busy Town.* I kids interact with chara and objects from the while they listen to a n tor describe the action can also build a tr though this task takes coordination. Several big titles will be hittin market pretty soon. An version of *Madeline* has tacular artwork. And H ton-Mifflin will shortly leasing CD-ROM versio *Curious George* and *Th lar Express.*

Fair warning before ing out to buy these grams: Most require mous computer p including at least a 48 Some need 8 megaby random-access memor updated video drivers they ca tricky t stall. A of the grams I played either my 486 PC to crash quired time-consuming te ing before they would Before getting your ki cited about a program, up and running first. T become captivated fro start—and learn som as well. *Geoffrey*

CD-ROMs for the Toddler Set

PROGRAM/PUBLISHER	STREET PRICE	COMMENTS
BUG ADVENTURE KNOWLEDGE ADVENTURE	$40	Offbeat program for any age about bugs and what they do, with lots of closeup videos; great opening of bees flying through the woods
FISHER-PRICE ABC'S DAVIDSON SOFTWARE	$40	A lively spelling program for 3- to 5-year-olds featuring music and simple games
MY FIRST ENCYCLOPEDIA KNOWLEDGE ADVENTURE	$40	An interactive encyclopedia for ages 3 to 6 that uses narrated videos to teach the meaning of 575 words

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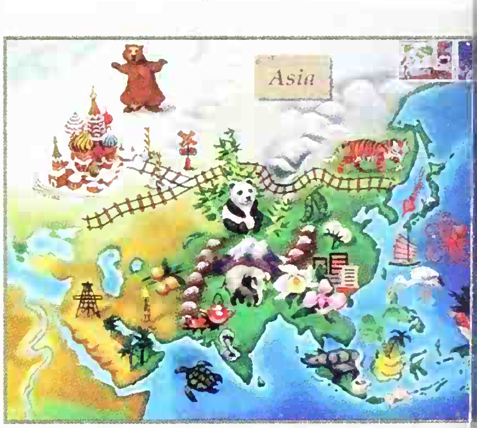

MY FIRST ENCYCLOPEDIA

- Its central image is a giant "tree of learning"
- Clicking on an object triggers a video of a ki explaining the word
- You can't type in a word and get a definition

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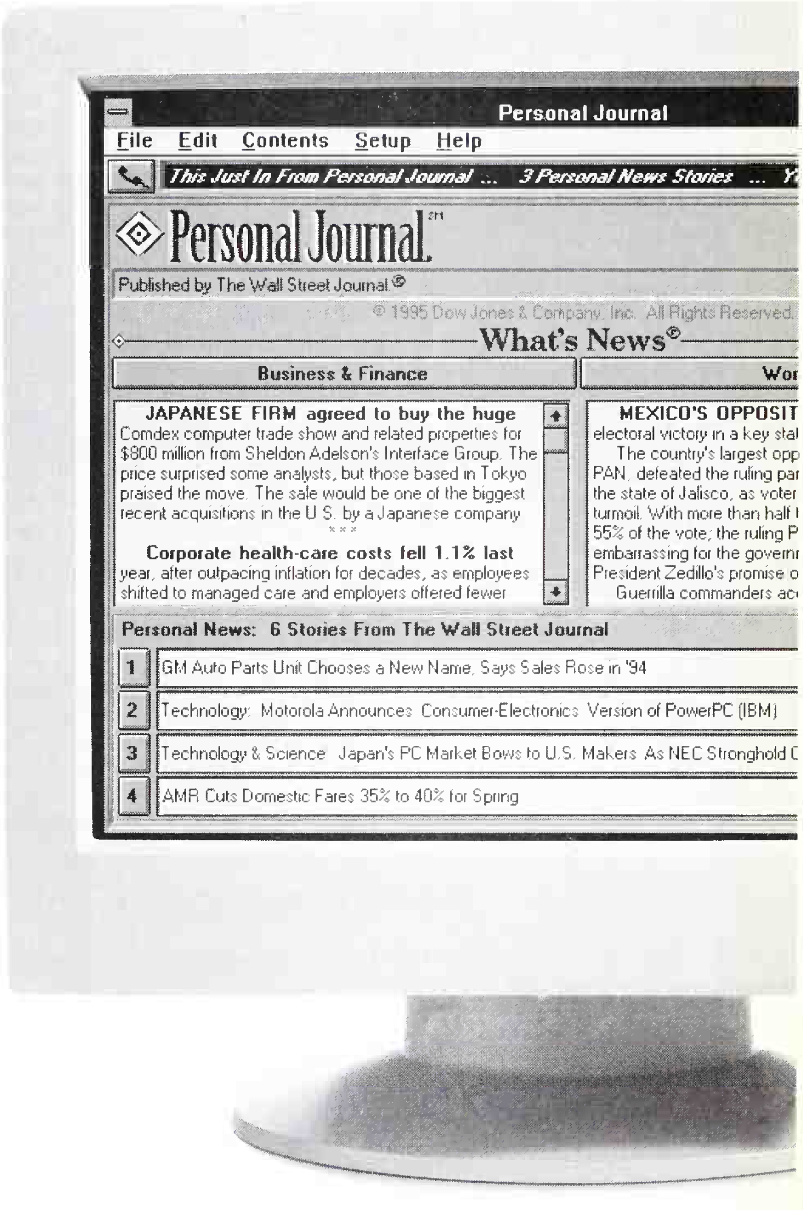

This Just In From Personal Journal ... 3 Personal News Stories ... Y

Personal Journal.℠

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What's News®

JAPANESE FIRM agreed to buy the huge Comdex computer trade show and related properties for $800 million from Sheldon Adelson's Interface Group. The price surprised some analysts, but those based in Tokyo praised the move. The sale would be one of the biggest recent acquisitions in the U.S. by a Japanese company.

* * *

Corporate health-care costs fell 1.1% last year, after outpacing inflation for decades, as employees shifted to managed care and employers offered fewer

MEXICO'S OPPOSIT electoral victory in a key stat
The country's largest opp PAN, defeated the ruling par the state of Jalisco, as voter turmoil. With more than half t 55% of the vote, the ruling P embarrassing for the governr President Zedillo's promise o
Guerrilla commanders ac

Personal News: 6 Stories From The Wall Street Journal

1 GM Auto Parts Unit Chooses a New Name, Says Sales Rose in '94
2 Technology: Motorola Announces Consumer-Electronics Version of PowerPC (IBM)
3 Technology & Science: Japan's PC Market Bows to U.S. Makers As NEC Stronghold C
4 AMR Cuts Domestic Fares 35% to 40% for Spring

Personal Journal.℠

Published for a circulation of one.

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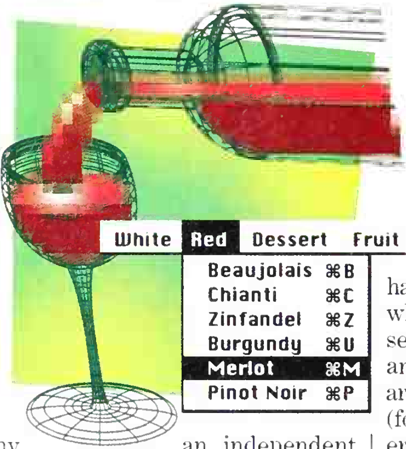
A MULTIMEDIA PC, A CORKSCREW, AND THOU



How many times does it happen? You're in a fancy restaurant trying to entertain a client or impress a date. At first, things are going swimmingly, but then the dreaded moment arrives. A sommelier takes your order and spoils your composure when you can't distinguish a Cabernet from a Chardonnay.

Lots of people, even many who enjoy drinking wine, feel stupid when it comes to choosing an appropriate bottle. After all, many oenophiles have a deserved reputation for being snooty, and many wine books are rather dry. Moreover not everyone can attend wine tastings.

These days people equipped with multimedia personal computers can run their own tastings. Microsoft recently uncorked the Microsoft Wine Guide on CD-ROM, a splendid introduction containing engaging videos with connoisseur Oz Clarke. *Food&Wine*'s Wine Tasting disk from Times Mirror Multimedia serves up its own expert in Steve Olson, an independent wine consultant. Wines of the World from Multicom Publishing includes recommendations from Ronn Wiegand, editor of *Restaurant Wine* newsletter.

Microsoft's simple-to-use disk is the classiest of the bunch. When you want to launch a particular video, you just click on one of the small, circular pictures of Clarke that pops up on the screen. In a segment about the appearance of wine, Clarke tells you how color serves as an indicator of a wine's age and taste. Clarke also takes you on a tour of 18 wines ranging from French Pinot Noir to Australian Shiraz.

Microsoft's CD-ROM includes a strong section on reading wine labels. You can click on different portions of 31 labels for an explanation of certain terms. There's also a 6,000-entry wine database, which you can search by any combination of region, grape variety, star rating (from Clarke and other experts), and food match. One flaw: The CD-ROM I tested crashed a number of times for no apparent reason.

TASTER'S CHOICE. In the *Food&Wine* disk, Olson has selected (and tells you where to buy) 48 wines representing an array of varietals and growing regions. These are grouped into eight flights (four reds, four whites). Users can rate such variables as brightness and color, then compare their benchmarks to Olson's. There is also a taster's-profile questionnaire. After you answer such questions as "Do you like the taste of fresh fruit, pound cake, or a hot fudge sundae?" Olson suggests wines you might enjoy.

HOME SOFTWARE
WINE

However, the *Food&Wine* disk was riddled with sloppy defects. It moved along at a snail's pace on my 486 PC, with badly out-of-sync videos. The "g" in "Wine Tasting" was dropped when Windows created a program group with the software's name.

And though the specs say
program will run on 4 m
bytes of RAM, you won'
able to view its videos on
thing less than 8 megaby
The best part of Multic
Wines of the World is a
video session on wine ta
with master sommelier
Dame. Dame goes thr
five reds and five whites.
fortunately, much else a
the CD-ROM is disappoin
Its interface is cumbers
with an unfriendly text
that scrolls on the right
tion of the screen and a
ture or video box on the
A database of 28,000 w
from Wiegand's newsle
and *The Wine Connoiss*
Companion can be plu
by country of origin,
cost, and quality, or any
bination thereof, but is ha
use. I had to go into
"help" screen to deter
what the
ing sys
used to e
ate each
were based on.

I also didn't appre
that a winemaking vide
the Multicom disk was a
motional clip produce
Taylor vineyards. Still,
Microsoft's entry was
most pleasing, all three
grams included inform
on wines of all prices
could help newcomers
deed, the disks are mos
joyable with a glas
Merlot. *Edward*

Wine Country On a Disk

PROGRAM	STREET PRICE	COMMENTS
FOOD&WINE'S WINE TASTING TIMES MIRROR MULTIMEDIA	$30	Users can rate wines on color, brightness, and other variables and compare notes with wine expert Steve Olson.
MICROSOFT WINE GUIDE MICROSOFT	$40	Includes videos, tasting tips, and recommendations from expert Oz Clarke. Has interactive atlas of wine regions.
WINES OF THE WORLD MULTICOM PUBLISHING	$40	Excellent video on tasting wines with sommelier Fred Dame. Has database of 28,000 wines but is hard to use.

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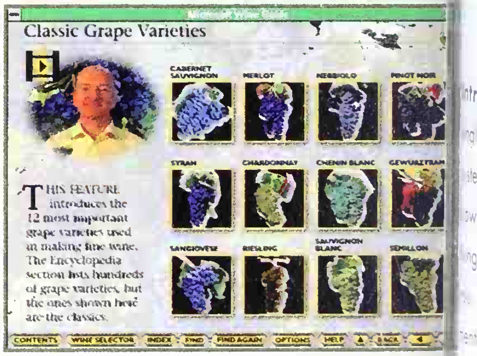


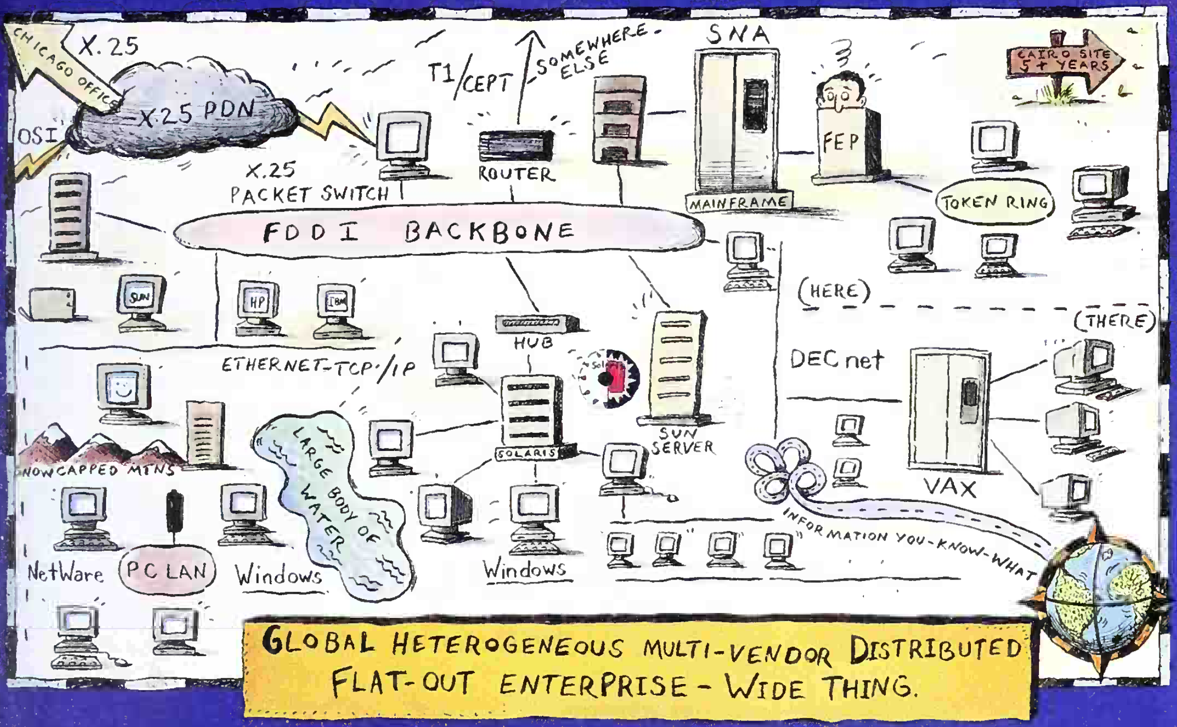
Classic Grape Varieties

THIS FEATURE introduces the 12 most important grape varieties used in making fine wine. The Encyclopedia section lists hundreds of grape varieties, but the ones shown here are the classics.

MICROSOFT WINE GUIDE

- Oz Clarke (above) describes grape varieti
- A 2,000-entry wine encyclopedia
- Sections on reading labels and planning a wine cellar

ILLUSTRATION BY JAMES GARY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TOKEN RING
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HP
IBM
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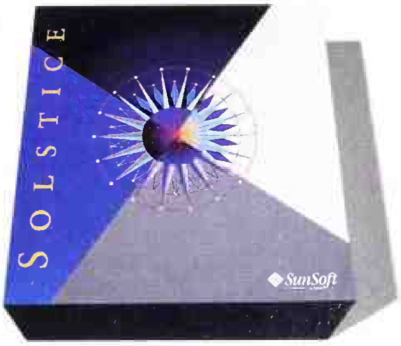
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SLSTIB

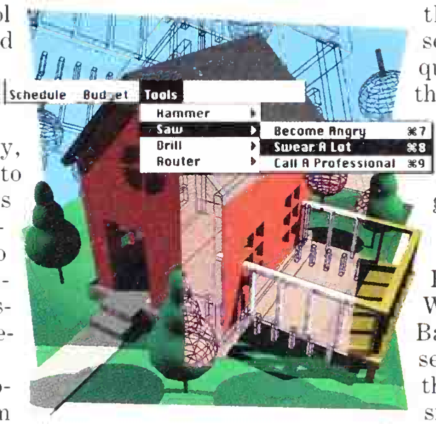
HOME SOFTWARE DO-IT-YOURSELF

USING A MOUSE TO FIX YOUR HOUSE

I've never been good with my hands, especially when it comes to building or repairing things. In fact, every time I face a home repair task, I wish I had paid closer attention to my high school shop teacher who warned that one day, I would regret not understanding the differences in nail weights. Fortunately, there's still hope. Thanks to CD-ROMs, do-it-yourselfers of all kinds—from 10-thumb wonders like me to veteran weekend carpenters—can find valuable assistance for home improvement chores.

LEAKY FAUCETS. Neophytes can choose from plenty of electronic primers, which are basically digitized versions of how-to books. However, CD-ROMs, with their massive storage space, have it over books in that they can complement written material with videos and animation that show repair procedures step-by-step.

The best of the lot is The Home Repair Encyclopedia from Books That Work. The program covers situations most homeowners are likely to face, such as how to fix a leaky faucet. Although the software relies more on simple animation and narration instead of video, the instructions are concise and easy to follow. Available only for IBM-compatible PCs running Windows, the disk also features money-saving advice, such as setting the hot-water heater at 120 degrees—hot enough for long showers without wasting energy.



Another program that tries the one-stop approach is Computer Associates International's $45 Simply House. Unfortunately, I found it somewhat difficult to navigate. Rather than relying on a traditional menu, you work with a graphic of a house. To get to the how-to advice, you click on an object, and after a brief animation, the program asks if you want more information on related topics. The animations are silly and get in the way of obtaining information quickly. For example, when you click on an exterior window, King Kong looks through the panes. A way around is to do a keyword search, which may or may not find the appropriate information. In fact, most of the space on the CD-ROM seems to be used for the quirky animations rather than how-to advice.

PAPER VIEW. For more experienced tinkerers, there are programs geared toward specific projects. One of my favorites in this class is IVI Publishing's Hometime Weekend Home Projects. Based on the *Hometime* series on public television, the CD-ROM features extensive use of clips from the show. The disk covers more than 60 weekend jobs such as hanging wallpaper, installing kitchen cabinets, and building a deck.

What's available for the seasoned craftsperson who doesn't need hand-holding? How about pure computer-aided design (CAD)? As any architect can attest, well-designed plans are the key to successful projects. One of the easiest programs to use is Broderbund's 3D Home Architect, available on fl disks and CD-ROMs. To dr mock-up of a room, you ply click and hold the m to "drag" the walls into proper positions. The gram has more than 200 mon pieces of furniture fixtures 50 sa floor plan if you w to see what a fireplace i den would look like, the ware can put one in draft and then take you virtual tour through the room. The CD-ROM add articles from *Amer HomeStyle* magazine on home and remodeling de as well as 50 video clips *The Home Pro*, a show on The Learning Chann ble TV network.

Such CAD capabilities just limited to inter Books That Work's 3D scape offers the same vanced design assistan gardeners. The $50 CI comes with a searchable base of more than 400 and plants to help plan choose suitable gree What's more, the soft can "time-lapse" lands to show how they woul as plants mature. The gram is even smart e to predict how shadow fall. Such programs mig spire even me to buy a el or a saw and see kind of do-it-myself proj can develop around house.

Pau

High-Tech Home Help

PRODUCT/PUBLISHER	STREET PRICE	COMMENTS
HOME REPAIR ENCYCLOPEDIA BOOKS THAT WORK	$30	Best all-around "how-to," covers the basics from removing stains to replacing roof shingles
HOMETIME WEEKEND HOME PROJECTS IVI PUBLISHING	$45	Based on the PBS *Hometime* show, features videos of projects like installing tiles or putting up drywall
3D HOME ARCHITECT BRODERBUND	$70	Makes it a snap to draw professional-looking floor plans and view them from any angle

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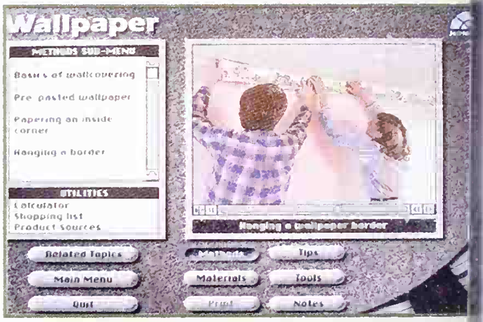

HOMETIME WEEKEND HOME PROJECTS

- Menus on the left provide quick and easy access to information
- Icons on the bottom bring up helpful tools

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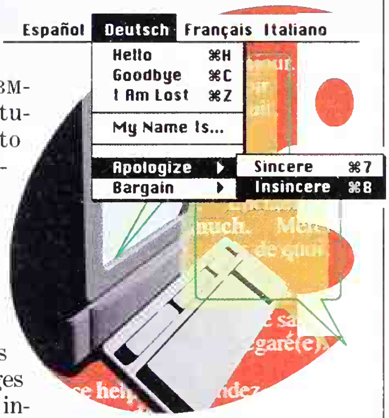
RLEZ-VOUS
-ROM?

HOME SOFTWARE
LANGUAGES

ng retained only
v simple phrases
high school
ıch—*ouvrez la*
e leaps to mind—I've
eager to give the lan-
e another shot.
thanks to several
ble CD-ROM pro-
for Macintosh or IBM-
Cs, even weekend stu-
like me can learn to
and understand for-
ongues with some
iency.

programs are no
ute for live instruc-
But used with other
ds, the CD-ROMs can
werful learning aids
ffer distinct advantages
other solo forms of in-
ion, including books or
tapes. By blending
, graphics, animation,
ie enormous storage ca-
ties of CD-ROMs, they
offer something that
y approximates a real
age experience," says
en Arneaud, director of
ng technologies at Ber-
nternational. Students
ear proper pronuncia-
or click on a word to have a look at its meaning.

You can also test your accent. Most programs let you record (with a microphone) and play back your voice in response to drills, although the practice may be only as good as your untrained ear.



The TriplePlayPlus! programs from Syracuse Language Systems—available in French, German, Spanish, English, and, in June, Hebrew—come with mikes and employ automatic speech-recognition technology licensed from Dragon Systems. Within limits, that means the program can detect a faulty accent or slower-than-normal rate of speech. Audio cues let you know whether you got it right.

TriplePlayPlus! is built around a series of games and comic strips with dialogue, broken out by level of difficulty and segregated by subject (food, numbers, etc.). Students can choose aural-comprehension games that demonstrate how the language should sound, games that teach you to read, and contests that use speech recognition to get you to use your voice. In one entry-level game, Concentration, pupils are shown pictures of items arranged in a grid. After studying the location of the items and practicing vocabulary, the items are covered up and students are asked in the foreign language to find them again from memory.

TICKING CLOCK. Those who want to immerse themselves fully in a language—with no English—can try the $139 Berlitz Think & Talk programs from HyperGlot Software in French, German, Italian, and Spanish. The series combines a CD-ROM disk with up to nine audio compact disks. Think & Talk offers 50 simple five- to seven-minute scenes, using color illustrations with dialogue and sound effects such as a ticking clock.

Berlitz also collaborated on the Berlitz Live! series in Spanish and Japanese from Sierra On-Line, handsome programs aimed at familiarizing travelers with foreign customs and language. The Spanish version is punctuated with delightful music and contains animated sequences with dialogue. You can repeat the scenes and take over the dialogue for a character. A main menu leads to a dozen sections on such areas as grammar, hotels, and shopping. One nuisance: the trivial factoids that popped up on the screen each time I clicked to move elsewhere ("American hot dogs and hamburgers are increasingly popular in Mexico").

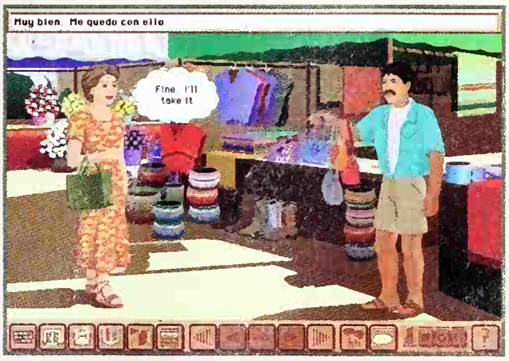
The Learn To Speak French and Learn To Speak Spanish programs from Learning Company and HyperGlot are also well-suited for travelers. The French version begins with tiny videos of the Eiffel Tower, the Louvre, and other sites, and is divided into 30 chapters on subjects such as taking a train. The "at the butcher shop" chapter begins with a video of the *boucherie*, takes you to a vocabulary page where you can click on terms to get definitions, then tests you in a word drill. So perhaps there's hope for my French after all, *n'est-ce pas?*

Edward Baig

Language Lessons on your PC

OGRAM/PUBLISHER	STREET PRICE	COMMENTS
ERLITZ LIVE! ERRA ON-LINE/ ERLITZ PUBLISHING	$80	Features tutors whose lip movements let you see and hear the correct pronunciation. Aimed at travelers. In Japanese and Spanish.
ARN TO SPEAK ARNING CO./ YPERGLOT SOFTWARE	$125	Chapters on real-life situations prepare visitors to foreign countries. Has French and Spanish versions.
RIPLEPLAYPLUS! RACUSE LANGUAGE STEMS	$70	Uses games and comic strips to teach aural comprehension, reading, and speech. Offers feedback on your accent.

DATA: BUSINESS WEEK



BERLITZ LIVE! SPANISH

- Features delightful music and animated chats
- You can repeat scenes and take over dialogue for a character
- One minor nuisance: Trivial factoids pop up

ILLUSTRATION BY JAMES GARY

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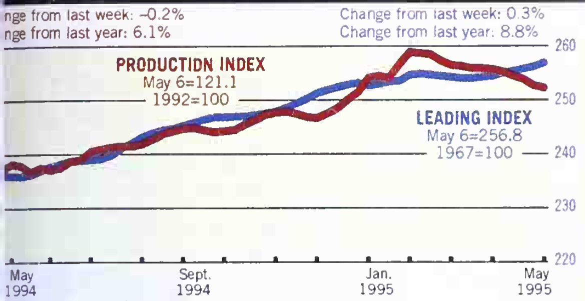
DUCTION AND LEADING INDEXES



xes are 4-week moving averages

roduction index continued to weaken during the week ended May 6. calculation of the four-week moving average, the index was unchanged 0.8. Seasonally adjusted output of trucks and cars was especially soft, ing increases in coal, paper, and paperboard output.

ading index climbed again in the latest week. The unaveraged index ose, to 257.9 from 256.8. Higher stock prices led the gain.

uction index copyright 1995 by The McGraw-Hill Companies   BW leading index copyright 1995 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (5/13) thous. of net tons	2,016	1,953#	5.1
AUTOS (5/13) units	141,974	135,128r#	-4.2
TRUCKS (5/13) units	118,532	119,862r#	-1.7
ELECTRIC POWER (5/13) millions of kilowatt-hrs.	56,459	55,054#	3.1
CRUDE-OIL REFINING (5/13) thous. of bbl./day	13,973	13,972#	-2.1
COAL (5/6) thous. of net tons	19,306#	20,135	-2.9
PAPERBOARD (5/6) thous. of tons	894.7#	904.6r	6.2
PAPER (5/6) thous. of tons	846.0#	850.0r	7.0
LUMBER (5/6) millions of ft.	426.2#	436.8	-1.9
RAIL FREIGHT (5/6) billions of ton-miles	23.8#	24.4	2.6

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (5/12) S&P 500	524.36	518.05	18.2
ORATE BOND YIELD, Aaa (5/12)	7.69%	7.91%	-5.3
STRIAL MATERIALS PRICES (5/12)	114.5	115.1	NA*
IESS FAILURES (5/5)	NA	NA	NA
ESTATE LOANS (5/3) billions	$477.0	$475.3	11.4
Y SUPPLY, M2 (5/1) billions	$3,616.7	$3,612.3r	2.0
IL CLAIMS, UNEMPLOYMENT (4/29) thous.	371	351	5.4

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on s failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (5/17) $/troy oz.	382.900	383.200	0.6
STEEL SCRAP (5/16) #1 heavy, $/ton	142.50	142.50	13.1
COPPER (5/13) ¢/lb.	129.0	129.0	25.7
ALUMINUM (5/13) ¢/lb.	84.5	86.5	34.1
COTTON (5/13) strict low middling 1-1/16 in., ¢/lb.	102.31	105.56	31.8
OIL (5/16) $/bbl.	19.98	19.64	11.0

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (5/16)	6.01%	5.95%	4.02%
ERCIAL PAPER (5/16) 3-month	6.06	6.04	4.61
FICATES OF DEPOSIT (5/17) 3-month	6.02	5.97	4.53
MORTGAGE (5/12) 30-year	8.10	8.45	8.90
STABLE MORTGAGE (5/12) one-year	6.11	6.24	5.53
(5/17)	9.00	9.00	6.88

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (5/17)	86.61	83.45	104.35
GERMAN MARK (5/17)	1.44	1.39	1.65
BRITISH POUND (5/17)	1.57	1.59	1.51
FRENCH FRANC (5/17)	5.11	4.87	5.66
ITALIAN LIRA (5/17)	1654.5	1622.3	1583.0
CANADIAN DOLLAR (5/17)	1.36	1.36	1.37
MEXICAN PESO (5/17)[3]	5.925	5.875	3.310

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

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lata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

MEETING

y, May 23 ▶ The Federal Reserve's
Open Market Committee will prob-
ep monetary policy on hold at their
g. That's the consensus view of
iists surveyed by MMS International,
The McGraw-Hill Companies. That
that the federal funds rate will
at 6%. The Fed has not raised rates
eb. 1. And given the broad evidence
e economy is slowing, monetary poli-
d remain on hold until at least fall.

LE GOODS ORDERS

sday, May 24, 8:30 a.m. ▶ New
taken by durable-goods manufactur-
bably fell by 0.5% in April, according to the median forecast of the MMS survey. That would reverse the 0.5% advance in orders in March. The April decline is suggested by the steep 0.8% drop in durable-goods output already reported. Most of the weakness is concentrated in motor vehicles. The backlog of unfilled orders was probably flat after increasing 0.5% in both February and March.

UNEMPLOYMENT CLAIMS

Thursday, May 25, 8:30 a.m. ▶ New claims for state unemployment insurance benefits likely fell to an annual rate of 350,000 for the week ended May 20. Filings took a surprise jump at the end of April, rising to 371,000. And they remained at 365,000 for the week of May 6. The four-week moving average of jobless claims is hovering near 360,000—a very high level given the solid growth in the economy and an unemployment rate below 6%.

EXISTING HOME SALES

Thursday, May 25, 8:45 a.m. ▶ Sales of existing homes were probably little changed in April after rising 5.8% in March, to an annual rate of 3.62 million. The bond rally has pushed down fixed mortgage rates to below 8% in some areas. Those cheaper loans have meant a rush of buyers who otherwise could not afford a home. Still, homebuying in this business cycle probably peaked in 1994.

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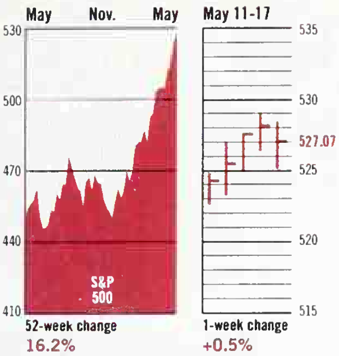
ITARY

illed on mixed economic hen continued to rally as falling industrial produc- weaker-than-expected tarts helped push the he 30-year Treasury down Stocks hit a new high, conductor companies The dollar rose on opti- ut prospects of cutting udget deficit. The green- in was helped by specula- proposed U.S. tariffs on luxury autos would force ese to open their markets narrow the deficit.

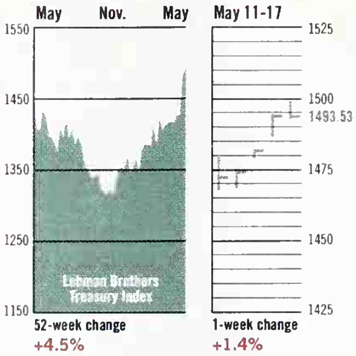
STOCKS



52-week change 16.2%

1-week change +0.5%

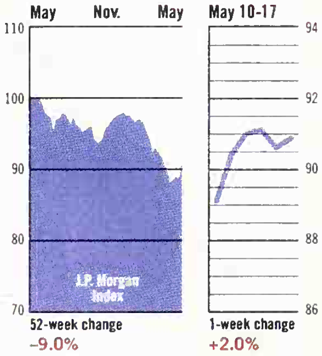
BONDS



52-week change +4.5%

1-week change +1.4%

THE DOLLAR



52-week change -9.0%

1-week change +2.0%

KET ANALYSIS

CKS	Latest	% change Week	% change 52-week
S INDUSTRIALS	4422.6	0.4	18.5
OMPANIES (S&P MidCap Index)	190.5	1.9	12.4
MPANIES (Russell 2000)	272.8	1.9	10.5
ANIES (Russell 3000)	299.7	0.7	14.9

STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
INANCIAL TIMES 100)	3297.4	0.2	5.8
KKEI INDEX)	16,471.4	-2.1	-18.3
TSE COMPOSITE)	4373.4	2.2	2.2

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.83%	5.79%	4.28%
30-YEAR TREASURY BOND YIELD	6.86%	7.00%	7.28%
S&P 500 DIVIDEND YIELD	2.52%	2.54%	2.87%
S&P 500 PRICE/EARNINGS RATIO	16.2	16.2	20.0

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	476.3	474.6	Positive
Stocks above 200-day moving average	71.0%	69.0%r	Negative
Speculative sentiment: Put/call ratio	0.65	0.74r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.16	1.19	Positive

BLOOMBERG FINANCIAL MARKETS

STRY GROUPS

ITH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
UILDING	19.4	2.4	PULTE	24.0	12.2	26½
ONDUCTORS	14.3	67.8	NATIONAL SEMICONDUCTOR	37.7	41.3	26½
GRAPHY/IMAGING	13.3	32.2	EASTMAN KODAK	14.2	34.1	60½
MENTATION	12.0	74.0	HEWLETT-PACKARD	12.6	74.0	69½
LTY CHEMICALS	11.9	30.3	W.R. GRACE	14.7	51.2	61⅝

ITH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
	-21.9	-17.7	U.S. HEALTHCARE	-28.1	-21.1	30⅜
ACTURED HOUSING	-9.5	1.9	FLEETWOOD ENTERPRISES	-12.2	3.1	20⅝
ORTATION SERVICES	-7.1	-3.6	PITTSTON SERVICES	-16.1	-3.2	22⅞
;	-6.3	-2.0	INCO	-10.7	3.1	25⅛
	-5.3	31.2	ELI LILLY	-9.8	29.6	70⅛

AL FUNDS

MORNINGSTAR INC

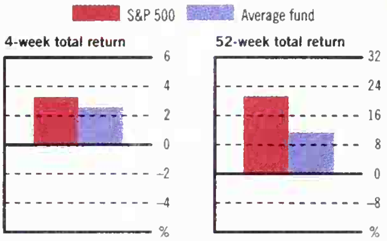
total return	%
N STANLEY LATIN AMERICAN A	23.5
STER EMERGING AMERICAS	20.4
ESTMENT LATIN AMERICAN EQUITY	17.5

otal return	%
AN COMMUNICATIONS & INFORM. A	73.0
CE TECHNOLOGY A	57.2
MERICAN TECHNOLOGY A	57.0

LAGGARDS

Four-week total return	%
EV TRADITIONAL GREATER INDIA	-9.0
FIDELITY SELECT MEDICAL DELIVERY	-7.9
JOHN HANCOCK GLOBAL RX B	-6.9

52-week total return	%
MONITREND GOLD	-35.7
STEADMAN OCEANOGRAPHIC TECHNOLOGY	-31.7
AMERICAN HERITAGE	-31.1



IVE PORTFOLIOS

ORI/McGRAW-HILL

ounts represent the ilue of $10,000 ne year ago ortfolio

ges indicate otal returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$11,972	$11,618	$11,224	$10,521	$10,034
+0.88%	+4.80%	-3.42%	+0.18%	-1.10%

his page are as of market close Wednesday, May 17, 1995, unless otherwise indicat- groups include S&P 500 companies only; performance and share prices are as of market close May 16. Mutual fund returns are as of May 12. Relative portfolios are valued as of May 16. A more detailed explanation of this page is available on request. r=revised NA=Not available

THE BUDGET: SEIZE THE DAY

At last. After nearly two decades of profligate living and failed promises, Washington is showing signs of fiscal discipline. The stunning rally in the bond and stock markets partly reflects a growing belief that serious efforts are under way to bring the federal budget under control by the year 2002.

Bitter controversy swirls on Capitol Hill over the right approach. The best road map so far is the plan put forward by Senator Pete V. Domenici (R-N. M.), who rightly defers any tax cuts until the budget is balanced. Conservative House Democrats are also proposing a fiscal plan that doesn't include tax cuts. In sharp contrast, the plan devised by Representative John R. Kasich (R-Ohio) has some unacceptable spending cuts to preserve about $350 billion in tax reductions. Sadly, the White House is a no-show even though President Clinton fought courageously, and at great political cost, during the critical first round of deficit slashing in 1993.

Clinton is making as big a mistake as the House Republicans. He has the power to nudge a congressional majority toward a genuine deficit-reduction blueprint modeled on Domenici's plan—with some changes, to be sure. At the moment, the proposed spending cuts go too far in hammering the poor, and there isn't enough equality of sacrifice. For instance, the earned income tax credit, an aid to the working poor, is targeted to become less generous, while corporate tax subsidies remain essentially unscathed.

Proposals to abolish the Commerce and Energy Depts. look like a wrong turn, too. Yes, Commerce is an unwieldy dinosaur. However, considering the new world of global competition, it would be better to radically downsize Commerce. A stripped-down, renamed International Trade Dept. could also consolidate under one roof 32 different trade and export agencies now scattered around Washington. Unrelated Commerce functions, such as the National Weather Service, could be privatized.

The Energy Dept., much like Commerce, is a b
cratic hodgepodge. Yet getting rid of the departmen
out finding a place for many of its functions is wrong.
ar waste sites must be cleaned up and nuclear bomb
Perhaps these tasks should be handled by Defens
three weapons laboratories managed by the Energ
could be consolidated into one laboratory at Los
N. M. The civilian national labs, along with other gove
institutes for basic and applied research, could be
ferred to the National Science Foundation or sold to
vate sector.

The government's health-care system is in despera
of an overhaul, and deficit-cutters are right in wanting
up the system to competition. But their ambitious g
reducing the growth in Medicare and Medicaid s
seems unrealistic.

Will so much deficit cutting lead to a recession
government employees at all levels will lose their jo
much stimulative spending will stop. But the Federal
Board can easily run a looser monetary policy to of
fiscal contraction. With a balanced budget, interes
should be about two percentage points lower th
would otherwise be, according to DRI/McGraw-Hill.
case, long-term bonds would yield about 4.5% in an
ment of 2% inflation and no deficit. A fall in interest
that level would create a lot more income, jobs, and
than tax cuts.

The big economic surprise around the turn of the
could be the dramatic improvement in America's
rate. The drain of a budget deficit on national savin
disappear or at the very least shrink into insigni
The boomers will be investing more to pay for reti
Higher savings fuels investment spending, which
boosts productivity and corporate profits. Living sta
rise. Now is the time for a creditable budget pla
payoff is huge.

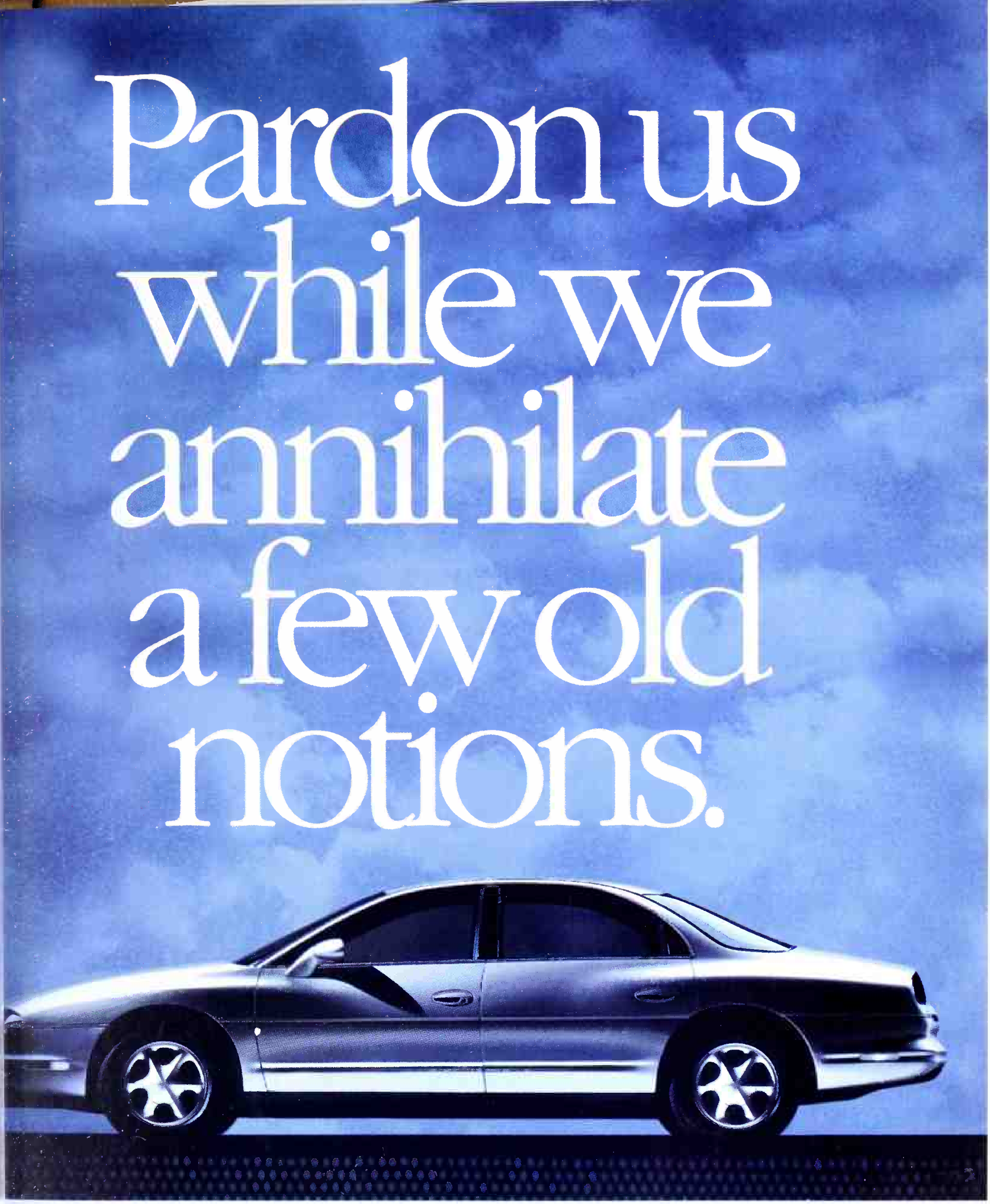
LESSONS FROM GRACE

Intrigue. Nepotism. Private investigators. Allegations of financial and sexual impropriety. A vicious power struggle. The drama at W. R. Grace & Co. unfolds like a John Grisham novel. Yet the story is all too real, and it vividly illustrates what can happen when a corporate board falls down on the job. Corporate America should carefully heed its two main lessons:

A chairman is not a dictator: J. Peter Grace, who died of cancer on Apr. 19, wielded far too much power for far too long at the conglomerate he had run since 1945. Worse, with a minuscule stake in the company, he had little incentive to align his interests with those of shareholders.

Directors should be independent: Most of the comp
board members were tightly linked to Peter Grace
juicy consulting contracts, investments, and family tie
wonder they failed to exercise independent judgmen
half of shareholders.

Still, there were heroes at Grace. Unsung and u
the company's employees delivered record earning
their superiors acted like courtiers at Versailles.
moil is far from over. Even with new CEO Albert J. C
place and a more assertive board, Wall Street believes
memberment of the company is a possibility. The e
deserve better.



ıer was a Cruise Missile. Its mother was a concert hall. And it's three parts power, two parts elegance, and all parts incredible. It's the 2–valve, 250hp, DOHC V8 Aurora by Oldsmobile. But if you feel more comfortable calling it a luxury-performance sedan, go right . Aurora by Oldsmobile. See what happens when you Demand Better. Call 1-800-718-7778.

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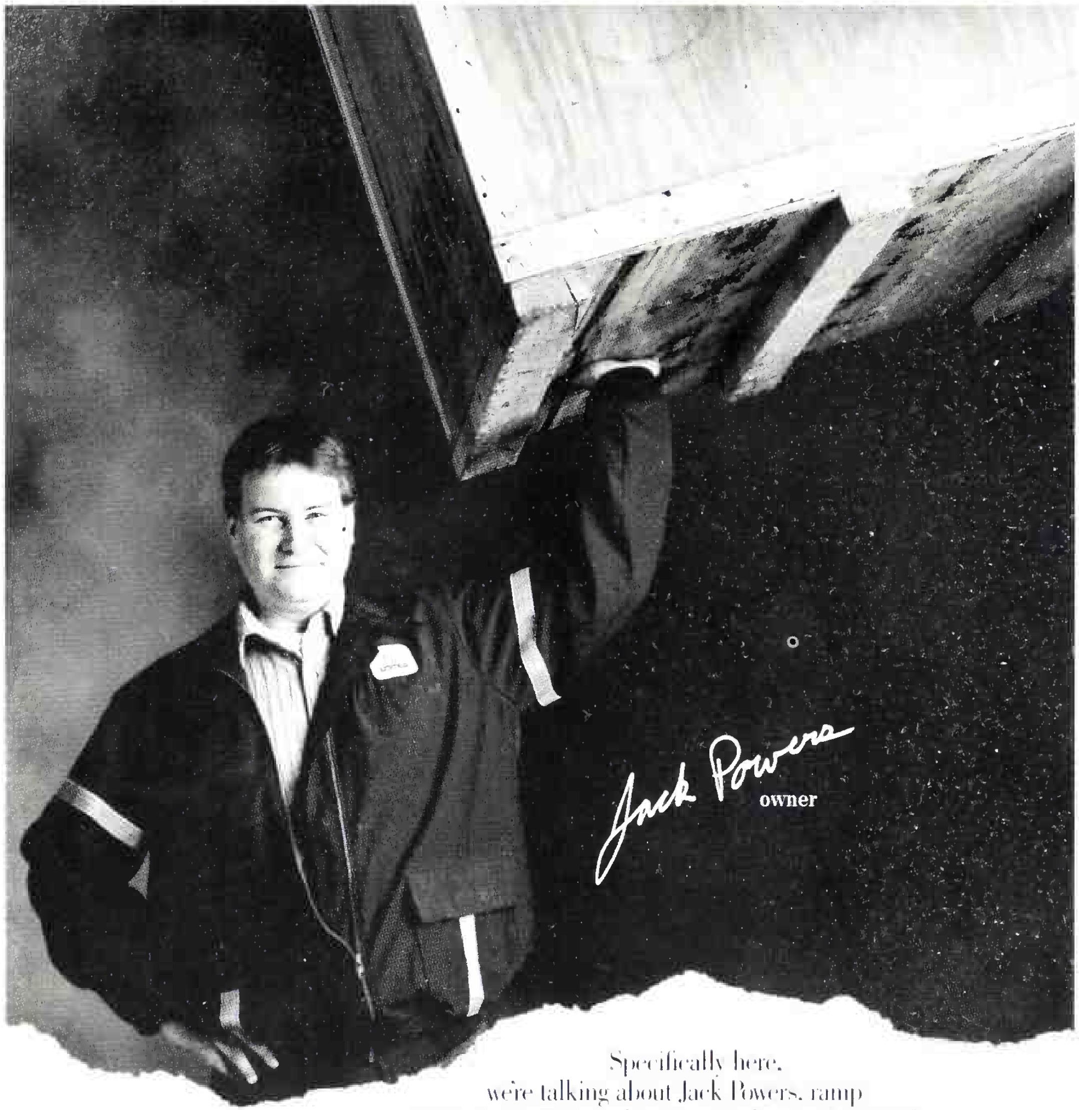

Specifically here, we're talking about Jack Powers, ramp serviceman. One of the new employee-owners of United Airlines. One of the 55,000 proud new owners.

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It's obvious we don't just work here.

UNITED AIRLINES

NNERS: BEST PRODUCT DESIGN / CHINA'S NEW ELITE

ESS WEEK
June 5

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BusinessWeek

5, 1995 A PUBLICATION OF THE McGRAW-HILL COMPANIES $2.95

ONLINE

I have just emerged from a long exploration of the frontiers of online investment. It was worth it. What I found a new, unique, and potentially very powerful ource of investor information and interaction. is largely shunned by the established powers n Wall Street. The online world is unruly and narchic–unfettered by conventional wisdom. is a world where small investors dominate, and here facts–not e Street's agenda are paramount...

INVESTING

A personal account of the pitfalls nd payoffs of investing on the Internet **BY GARY WEISS**

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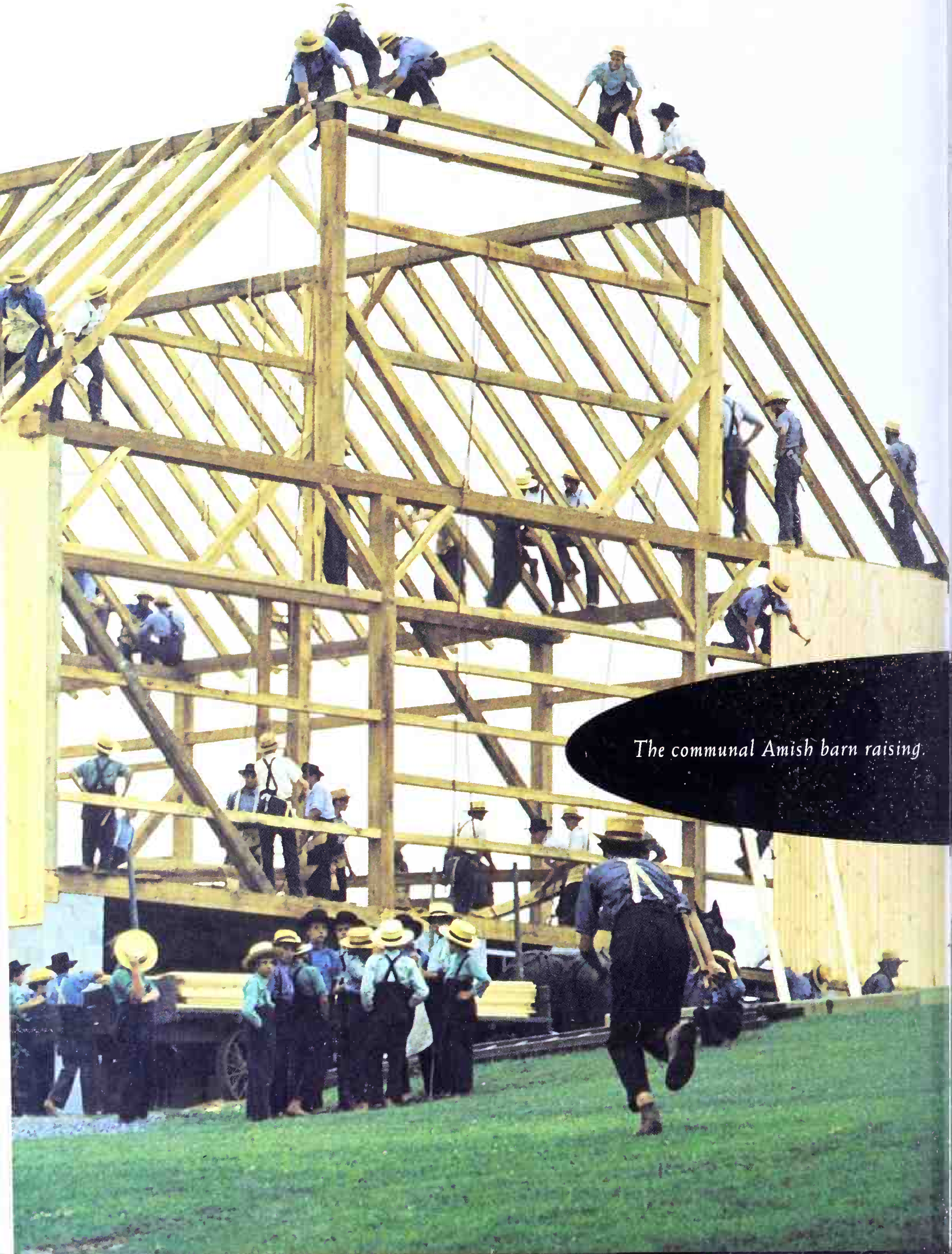

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The RACE furniture system from Haworth.

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you'll find that one of them is significantly easier to
reconfigure after everyone's gone home.

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BusinessWeek
JUNE 5, 1995

COVER STORY
Cruising cyberspace in search of financial data and insight is the wave of the future—and online investors are plunging in
[illegible]

Cover Story

64 ONLINE INVESTING
At your fingertips is a powerful new financial tool that can help you mine a wealth of data—and interact with other investors. Wall Street mostly shuns the dialogue, but small fry use newsgroups and E-mail to ferret out the kind of nitty-gritty details prized by the pros

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ILLUSTRATION BY [illegible]

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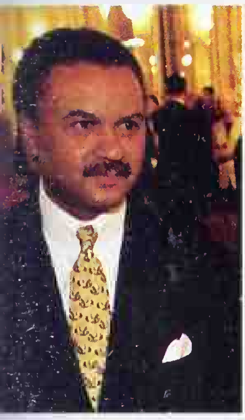
HOWITZER ON THE HILL
Insurance lobbyist Paul Equale
loves targeting Congress page 125



TICKETS
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n Brown's Trade
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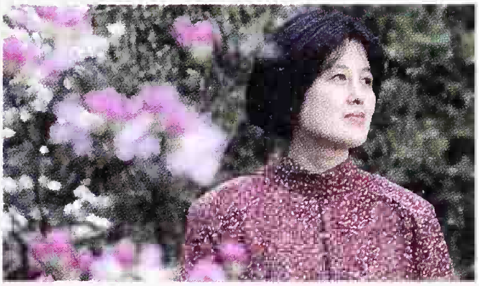

CHINA'S NEW ELITE
They survived Mao. Now,
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s objective: To halt legislation that
uld allow banks to sell insurance

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STING NUCOR'S METTLE
e steel mill whose success is often
itated now finds rivals on its heels,
d it's starting to stumble

ne Workplace

RUS AT WORK
n the bottom line benefit from a
ore soulful office? Some companies
e trying to find out

arketing

ADER JOE'S ATLANTIC OVERTURES
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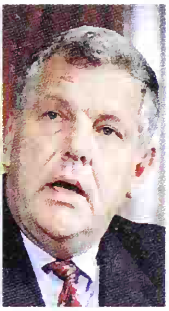
Up Front

EDITED BY MICHAEL MANDEL, WITH OLUWABUNMI SHABI

FAMILY VALUES

BILL TO RUPERT: WATCH IT, MATE

MURDOCH: *Gets earful*


BENNETT: *Irate dad*

EX-EDUCATION SECRETARY William J. Bennett has attacked Time Warner for selling and promoting rap music with violent lyrics. Now, Bennett may move on to a new target: fellow conservative Rupert Murdoch and his Fox Broadcasting network.

Bennett's ire stems from a Fox programming incident earlier this year. He was with his 11-year-old son when a "trashy" promo for *Beverly Hills 90210* flashed on the screen. "Damn. I was watching a football game with my kid, and I gotta see this crud?" griped Bennett. So he called Murdoch confidant Irwin Stelzer, an American Enterprise Institute economist, which led to an April phone talk between Murdoch and Bennett. "I said to him: 'You've got real garbage on this network, and you should take it off,'" recalls Bennett.

Murdoch, who had seen the promo, told Bennett he had already banned such sizzling promos from sports programs. As for cleaning up the rest of the network, Murdoch simply said he would "think about it," Bennett says. Not mollified, Bennett informed Murdoch about his then-planned attack on Time Warner—and told him Fox might be next. Officials at Fox had no comment. *Mark Lewyn*

SOFTWARE HARDBALL

WELCOME BACK TO THE JUNGLE, INTUIT

Quicken
CD-ROM DELUXE EDITION
for Windows
ON GUARD: *Dueling apps*

HOW QUICKLY FRIEND CAN turn to foe. Intuit, still reeling from the collapsed $2 billion merger deal with Microsoft, may find its flagship program, Quicken, under attack. From whom? Microsoft.

On Aug. 24, Microsoft will launch a revamped version of Microsoft Money for Windows 95. That's the personal-finance program Microsoft offered to Novell to quell the Justice Dept.'s fears of lack of market competition. People who saw a rough demonstration of the new version say Money will be very easy for first-time users. A much improved Money would pose a strong threat to Quicken, especially if Windows 95 lives up to its billing.

Meanwhile, during the six-month negotiations with Intuit, Microsoft managed to hire away a top Intuit sales guy, Stephen Schiro, now vice-president of Microsoft's End User Customer Unit.

Intuit CEO Scott Cook is at a slight loss to describe the situation he's in: "When we announced the deal, everyone was saying 'Congratulations.' Now that the deal is off, people are saying 'Congratulations.'" *Paul Eng*

TALK SHOW "In the future, we may wait a week or two before we decide to do something like this again."

—Microsoft CEO William H. Gates, after ending his attempt to take over Intuit

THE DEAL MILL

SLOW LOCOMOTION AT MORRISON KNUDSE

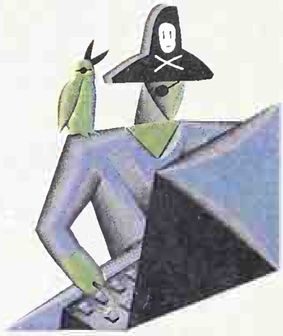
ONE OF MK RAIL'S RUMBLERS: *What's holding up the sal*

OF LATE, MORRISON KNUDSEN has been struggling. Yet the engineering outfit seems to be dragging its feet in selling a prized asset: a 65% share of MK Rail, which makes locomotives and components.

The stake, with a market value of $70 million, was put on the block in March to raise needed cash. Yet a potential buyer says he's getting nowhere. "I've made it very clear we're interested, but we've not been able to get any positive response from Morrison Knudsen, MK Rail, or its investment bankers," says Thomas M. Begel, chairman of Johnsto America Industries, a rai manufacturer.

His frustration is app ently shared by some bo members at the parent co pany. A source close to board says the sales proc is being slowed by MK R failure to provide a full fin cial picture. It delayed issu results for 1994 and the fi quarter of 1995, but expe losses in both periods. A Morrison Knudsen spokesm says: "We are continuing communicate with MK Rai our mutual efforts to fin buyer." *Richard Melc*

THE LIST I-WAY ROBBERY



Software producers lost $15 billion in 1994 from illegal copying. The U.S. had the lowest rate but the biggest losses. Virtually all of the software in use in China and Indonesia among others, is pirated.

THE WORLD'S TOP PIRATES

LOSSES IN INDIVIDUAL NATIONS FROM ILLEGAL COPYING OF SOFTWARE, 199

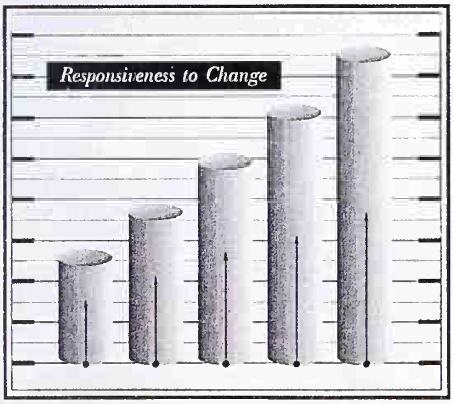
	MILLIONS	PIRAC RATE
U.S.	$2,877	35%
JAPAN	2,076	67
GERMANY	1,875	50
FRANCE	771	57
BRAZIL	550	77
KOREA	546	78
BRITAIN	544	43
RUSSIA	541	94
CHINA	527	98
ITALY	404	58

DATA: BUSINESS SOFTWARE ALLIANC

have a significant advantage over those tied down by convention, bureaucracy and big-spending.

FLEXIBILITY

The varied demands of today's marketplace require small businesses to perform an increasing variety of functions.



Whether it's in sales or finance, realty or retail, flexibility is the new key to long-term success. In these days of doing more with less, the way in which companies allocate resources has changed. In the past, financial clout often determined who came out on top. Today, faced with competitive and market pressures unimagined ten years ago, companies must now find

Flexibility and a sense of adventure must be a part of any company's corporate culture if it ceed into the 21st century.

•

Large companies, of c a greater challenge than small bu generally have an easier time imple cies. But no matter what the size companies with an adaptable str id bi outlook are better positioned to c rket share than their competitors; their ab uickly re cus, or even redefine, their bu objectives sures their continued succe

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From envelopes to index cards, letter-size to legal-size, the new HP LaserJet 5P tackles whatever comes its way. With two paper trays, the ability to print up to 10 wrinkle-free envelopes at one time, crisp 600-dpi print quality, and six-page-per-minute speed, it's the perfect printer for your business. Beyond all this, new wireless infrared printing ensures built-in flexibility into the future.

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Up Front

VEGGIEWORLD

ROY DISNEY'S MAGIC WAND

YOU KNOW A TREND HAS GONE mainstream when it captures the Magic Kingdom. That is what's happening with veggie burgers, thanks partly to a deal put together by Roy Disney's Shamrock Holdings.

FANTASTIC
Nature's Burger
All Natural Meatless Grilled Patty
• ALL NATURAL • LOW FAT • VEGETARIAN

SERVED AT DISNEY PARKS: *Goofy better eat his vegetables*

In October, 1994, Shamrock's investment arm, Trefoil II, acquired a minority interest in Fantastic Foods of Petaluma, Calif. The company makes Nature's Burger, a vegetable-and-grain alternative to beef patties. Just six months later, these veggie burgers are being sold at Disneyland and Disney World.

Coincidence? Not really. In addition to heading Shamrock, Disney, who is Walt's nephew, is vice-chairman of the board of Walt Disney Co., which owns the parks. "That relationship helped," notes Clifford Miller, managing director of Shamrock and Trefoil II. However, he also says he would like to think Disney would have given Fantastic Foods a shot even without executive influence.

Indeed, demand has been strong: After a short test period, restaurants at the Disney parks have boosted their orders from 100 to 7,500 veggie burgers per week. Besides, veggie burgers might be a fine fit for Disney's goody-goody image. "Can you imagine Cinderella eating meat products full of fats and nitrates?" asks Larry Tsai, director of marketing at Fantastic Foods. "All her little animal friends in Disneyland would turn their faces to the ground with shame." *Kate Murphy*

CASINO SOCIETY

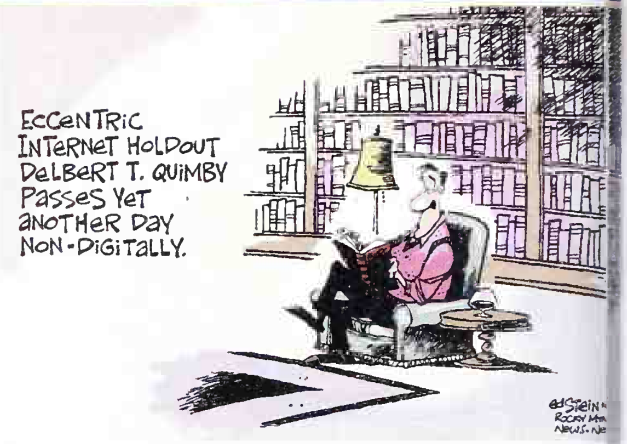
LOTTERY PLAYERS, THE TUBE WANTS YOU

LIKE OTHER STATES THAT RELY on lottery revenues, Florida is finding people more reluctant to spring for a ticket or two. So starting this fall, the Florida Lottery Commission will be offering lucky lottery players an added thrill: a chance to appear on a new TV game show, *Flamingo Fortune*, and compete for cash prizes.

Tentative plans call for contestants to be picked by holding the right tickets. Don't expect to see any contest of skill or intelligence on the air. Florida's lottery is by law a game of chance rather than ability, and the rules will carry over to the game show. That should make it especially mindless, even compared with the usual TV fare. Top prizes could reach $100,000.

Mark Goodson Productions, known for *The Price Is Right* and *Family Feud*, is creating the show. Already, it has aired lottery games in Illinois and Massachusetts and hopes to sign up more big states. *Peter Valdes-Dapena*

DRAWN & QUARTERED


ECCENTRIC INTERNET HOLDOUT DELBERT T. QUIMBY PASSES YET ANOTHER DAY NON-DIGITALLY.
edStein
ROCKY MTN NEWS-NE

OFFICE HOURS

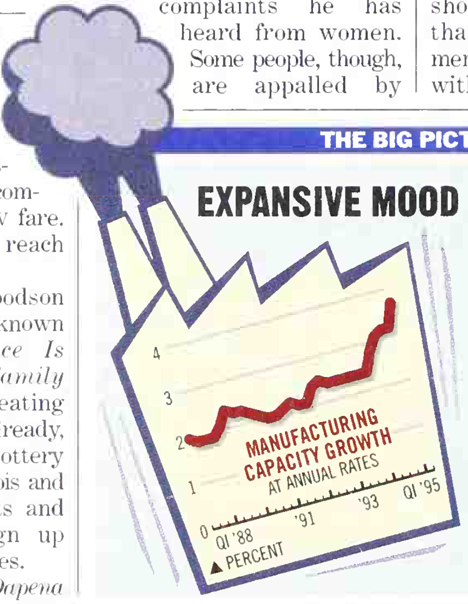
THE 60-MINUTE ITCH?

IN HIS LATEST NEWSLETTER, well-known management psychologist Harry Levinson suggests that a woman in the workplace should not spend more than one hour alone in an office with any male co-worker. His reasoning? Men start developing sexual fantasies if they spend too much time alone with a woman—perhaps leading to no end of trouble.

Levinson says that his advice is based on his experiences as a therapist and on complaints he has heard from women. Some people, though, are appalled by Levinson's suggestion. "T absurd notion is demean to both men and wome says Sheila Welling president of Catalyst non-profit resea group for w en based i New Yor Welling does n tongue- cheek, t some g could c out of Le son's rec mendation ter all: " only merit to this obser tion is that it might lead shorter meetings." N that's a notion that m men and women would ag with. *Lori Bongio*

THE BIG PICTURE

EXPANSIVE MOOD



Conventional wisdo
holds that when fac
tories are running a
close to 85% of cap
acity, as they are no
watch out for a surg
of inflation. But the
could be a ray of
hope. Manufacturer
are adding to their
productive capacity
at the fastest rate
in 10 years.

DATA: FEDERAL RESERVE BOARD

FOOTNOTES Percentage increase in television advertising revenue, 1993-94: China, **74%**; U.S., **5%**

KWISE FROM [illegible] MOUNTAIN NEWS/NEA, ILLUSTRATION BY MACIEK ALBRECHT, GRAPHIC BY ALAN BASEDEN, ILLUSTRATION BY RAY VELLA/BW

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Twenty-nine countries around the world have discovered a truly exceptional Amer
product. The Accord. In fact, the Accord Wagon is now the best-selling American export
And it doesn't matter which side of the road it's driven on. Because the plant in Marysville, O

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rted from Ecuador.

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rted from Kenya.

Exported from America.

uces both left- and right-hand-drive models. Of course, good
s and versatility have a lot to do with its worldwide popularity
ell. It seems that an appreciation for quality is universal.

The Accord Wagon

HONDA A Car Ahead

BusinessWeek

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Readers Report

NASDAQ BARKS BACK

The recent article in your magazine is flawed in several crucial respects ("Who watches the watchdog at NASDAQ?" Finance, May 15).

It suggests that pressure is building to transform NASDAQ into a national electronic-execution system. To our knowledge, the only persons who are advocating such a concept are some academics. While nice in theory, in reality such systems do not provide the immediacy and liquidity demanded by today's investors. Efficient markets need intermediaries, such as specialists and market makers, to provide the other side of a trade when an offsetting order does not exist. That is why the liquidity that exists in U.S. markets is the envy of the world.

The article also suggests that the NASD is pursuing an agenda favoring large member organizations at the expense of smaller firms. The NASD agenda is determined by representatives of all firms—large, medium, and small. Industry members of the NASD's board and district committees are elected, and rules are approved on the basis of one vote per firm per district. That's as balanced a voting process as you can get. For the past five years, most NASD board members from the securities industry have come from small firms.

Joseph R. Hardiman
President
NASDAQ Stock Market
Washington

WHAT'S FAIR IN TAXES?

Robert Kuttner's column "Dueling tax plans: One adds up, the other doesn't" (Economic Viewpoint, May 15) is formulated on two premises. The first is that lowering the tax rates will cause lower tax revenues. The second is that there should be tax equity; that is, those who earn more money should pay more in taxes.

In the first case, Kuttner was proved wrong during the Reagan era. When taxes were lowered, tax revenues
up. When Reagan compromised
Congress and taxes were raised,
revenues went down again. Kut
would probably argue that the d
went up during Reagan's watch,
what he would probably fail to men
is that Congress went hog-wild
pork-barrel spending.

As for equity taxation, why don'
go all the way and make the we
pay higher prices, too? We could
them pay $1.50 for a can of Peps
$5.00 for a Big Mac. After all, it w
only be equitable.

Dan F
Eden Prairie,

There is a real inequity in the id
a flat tax on consumption. Most pe
who have retired do not save any
Accordingly, a consumption tax w
fall most heavily on older Americ
Such a tax is clearly unfair to ret
persons and should either not be co
ered or should provide reduced or
inated taxes for retired persons.

A. N. Tscha
Idaho Falls, I

SOME MEXICANS DON'T SEEM HUNGRY FOR BUSINESS

While reading your article, I coul
help wondering how much of Mex
economic problems can be attribute
their indifference to business oppo
nity ("Is this tough love—or a sav
crackdown?" International Busin
May 15).

Case in point: I have been trying
successfully for over a year to fi
manufacturer of disposable clean-r
garments, which I would gladly imp
The commercial attaché at the Mex
Consulate in San Francisco did not
turn my phone calls or fax inquiri
managed to identify 15 manufacture
Mexico and wrote to each. Only t
replied—and that was at least thre
four months after receiving my le
None had the capability I needed.
other 12 never bothered to answer.

If this is the prevailing attitude,

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Readers Report

CORRECTIONS & CLARIFICATION

In "Where does Goldman Sachs go fi here?" (Finance, Mar. 20), the Bishop Est in Hawaii, which last year invested $ million in the Wall Street firm, was inc rectly described as family-owned. It is a vate charitable trust.

---

little wonder that Mexico is having nomic problems.

Hal Sh
Chico, C

THE VALUE OF VALUJET

I have followed ValuJet from it ception, and I know many have ben ed from the airline's success ("Gro pains at ValuJet," News: Analys Commentary, May 15).

Rapid expansion at ValuJet con uted to Atlanta's being the fastest-g ing large airport last year. The ai is such a boost to local economies other cities have encouraged ValuJ start serving their communities. The lic has gained the most since Valu advent, by saving hundreds of millio dollars in airfares.

The founders and stockholders done well. But the initial investors to great risk in starting ValuJet. With management and employee relations it could become the first successful passenger airline in the U.S. in dec

Fred C. Allvine, Profe
School of Manage
Georgia Institute of Techno
At

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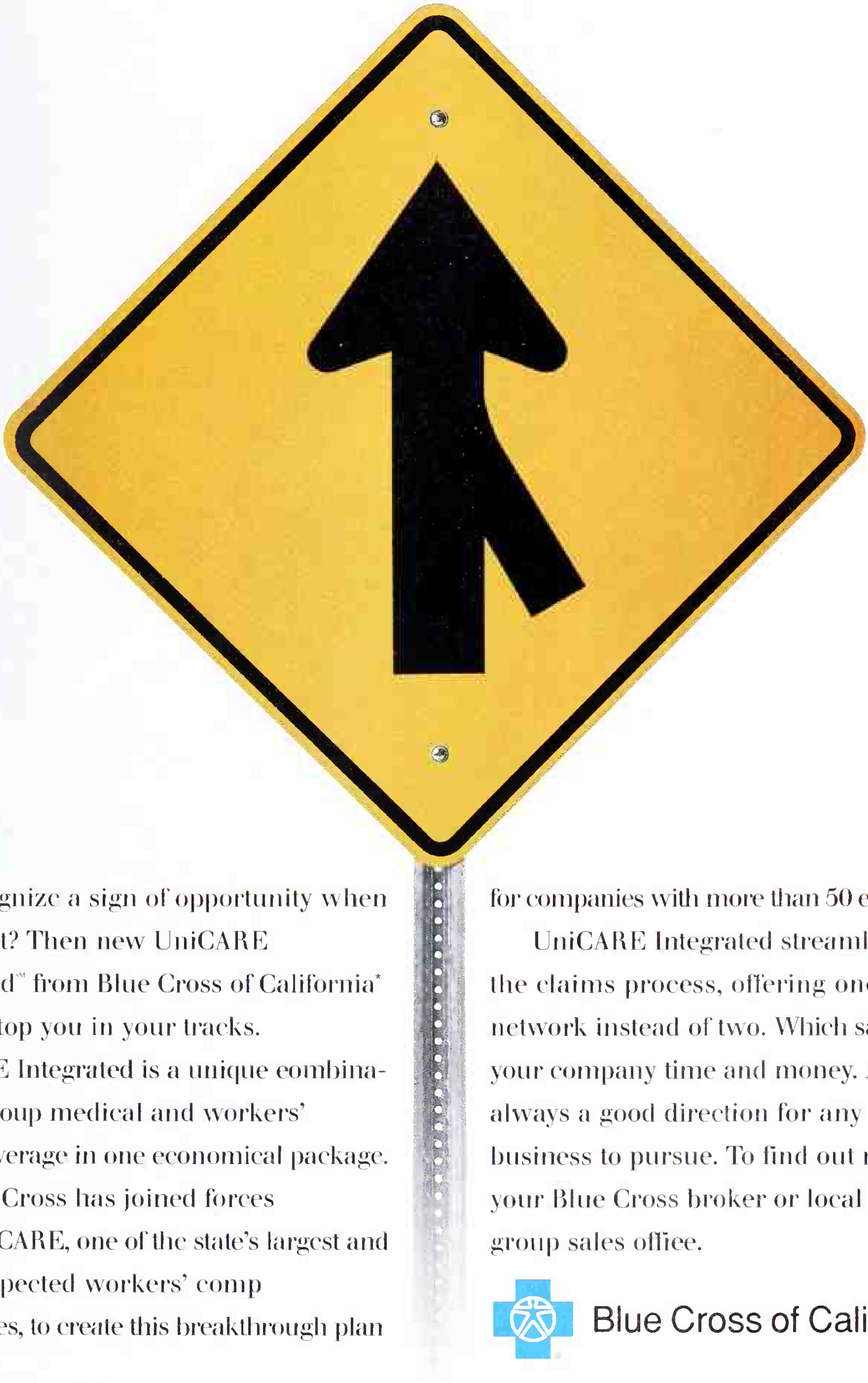

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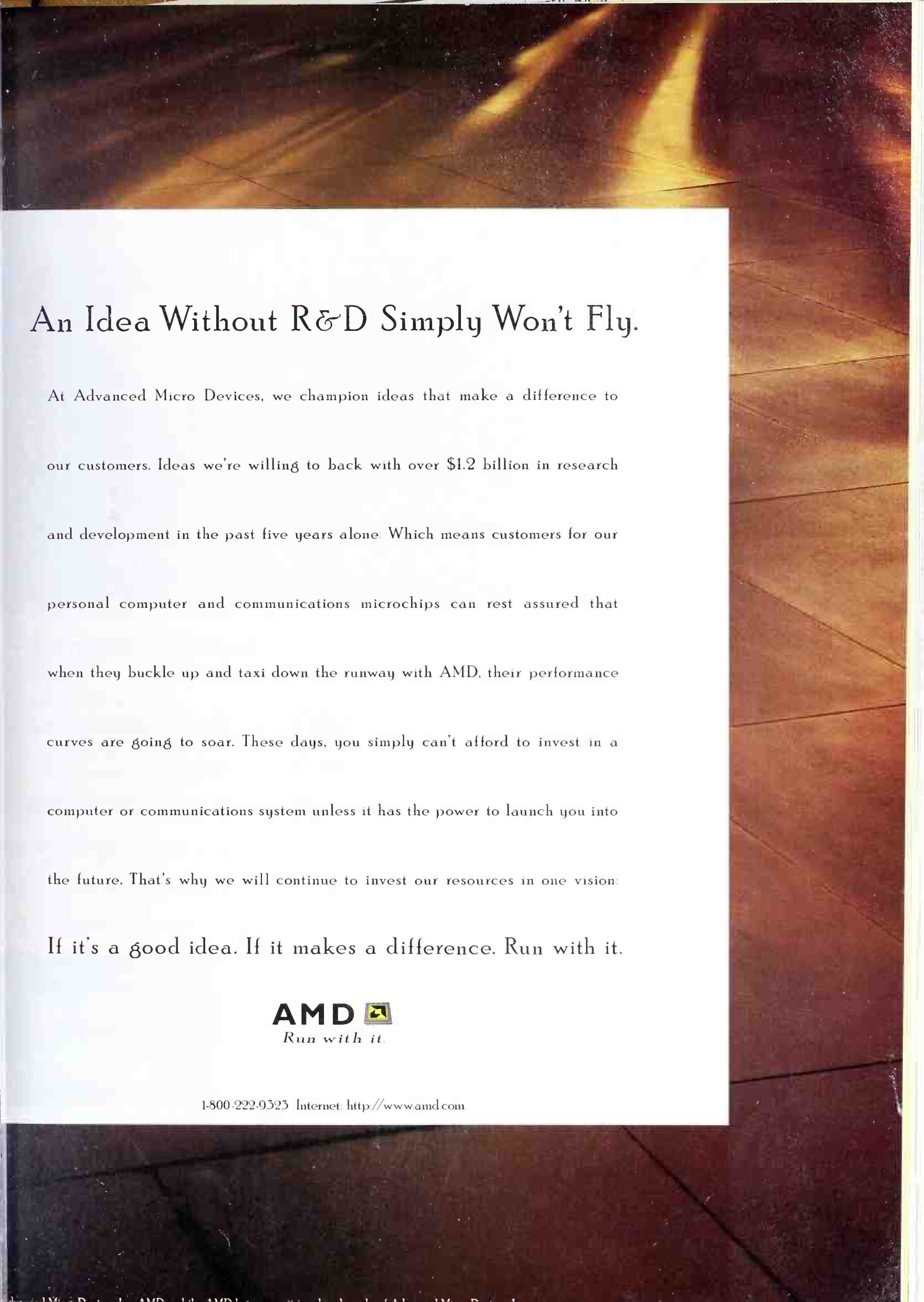

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VALUE PRICED
VALUE PRICED
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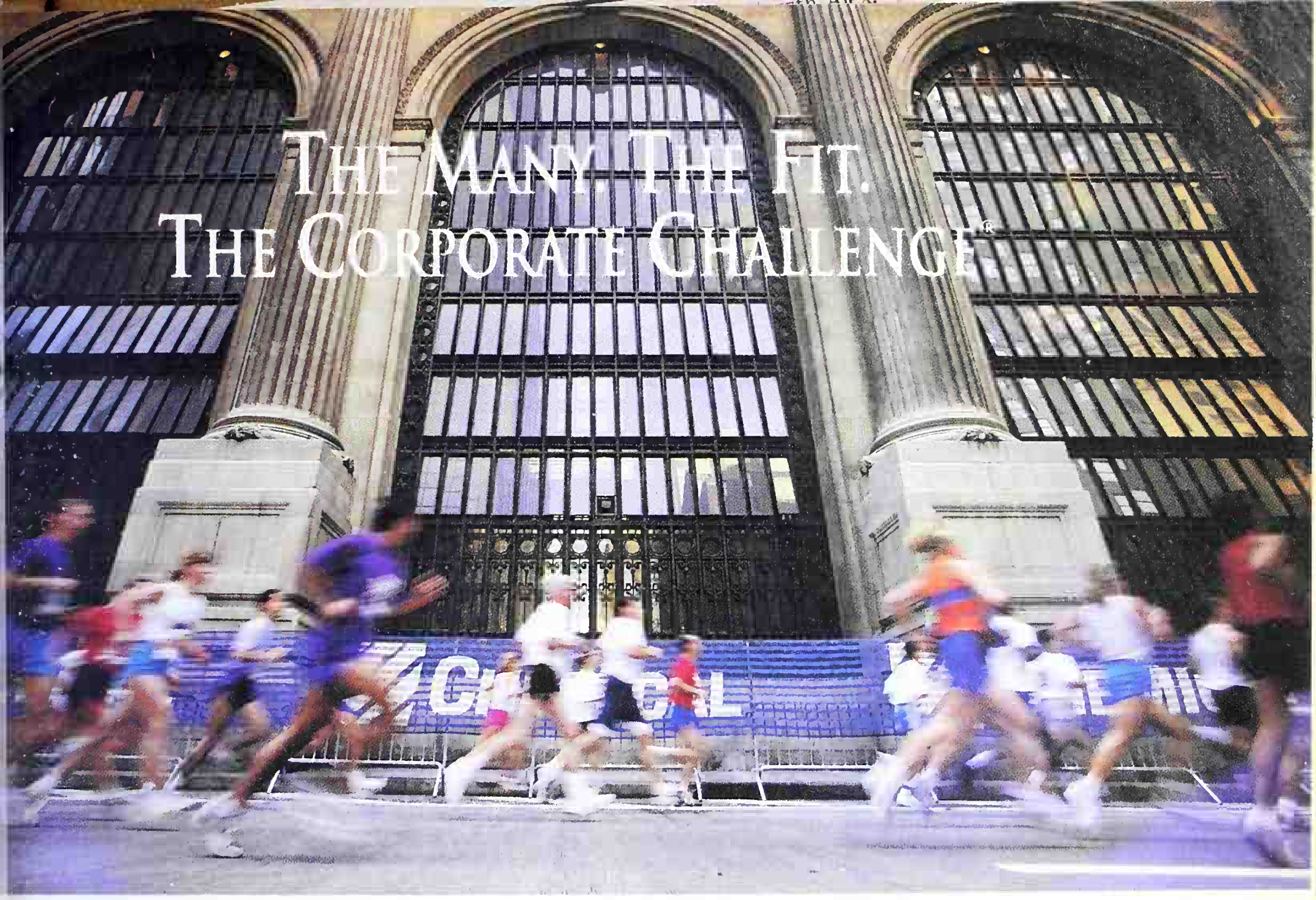

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June 29	Jersey City, NJ
July 12	London, England
July 18	Stamford, CT
July 20	Boston, MA
July 25	Long Island, NY
July 26	New York City #3
July 27	Morristown, NJ
August 1	Syracuse, NY
August 3	Chicago, IL*
August 9	San Francisco, CA*
August 15	Paramus, NJ
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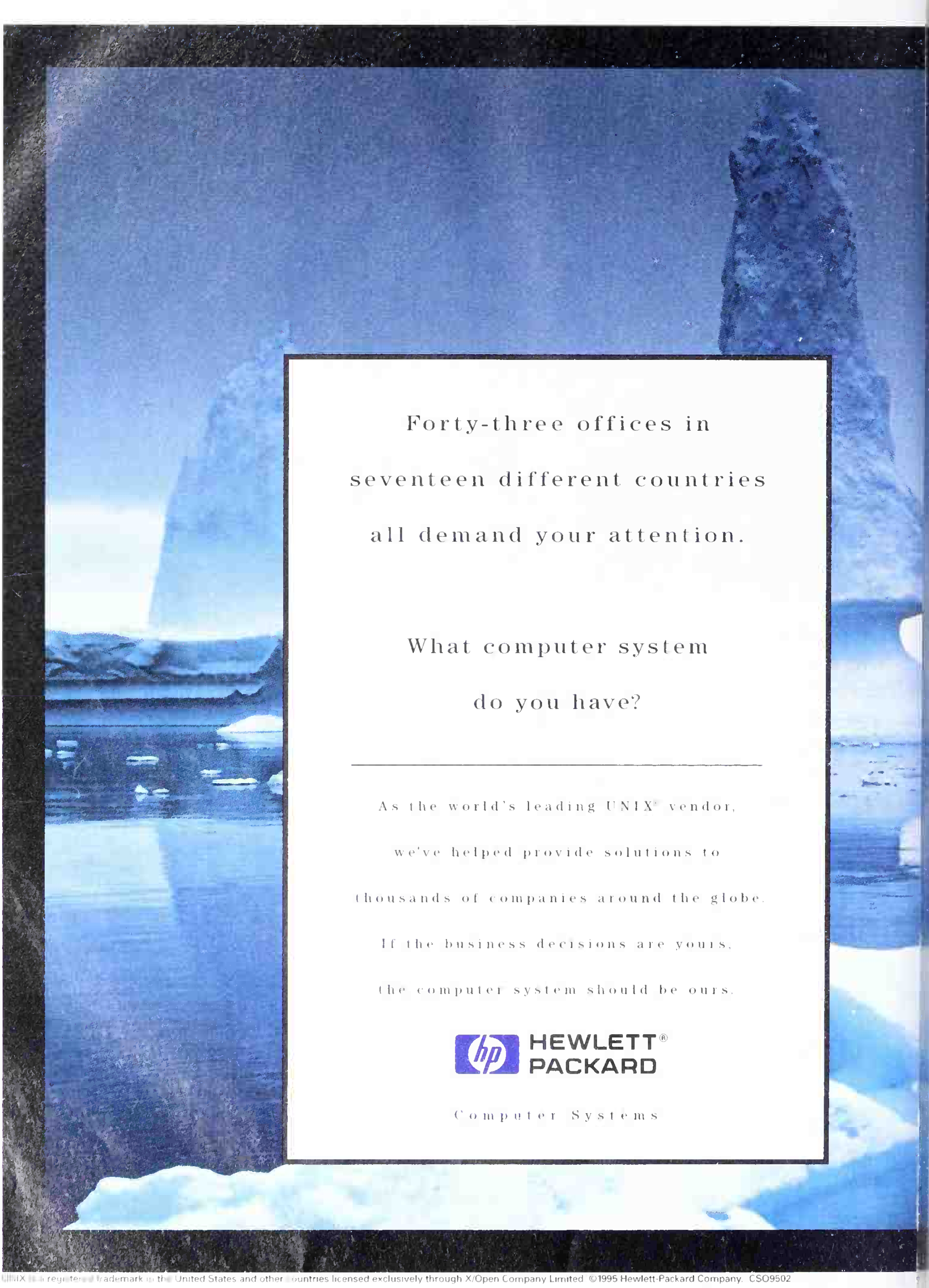

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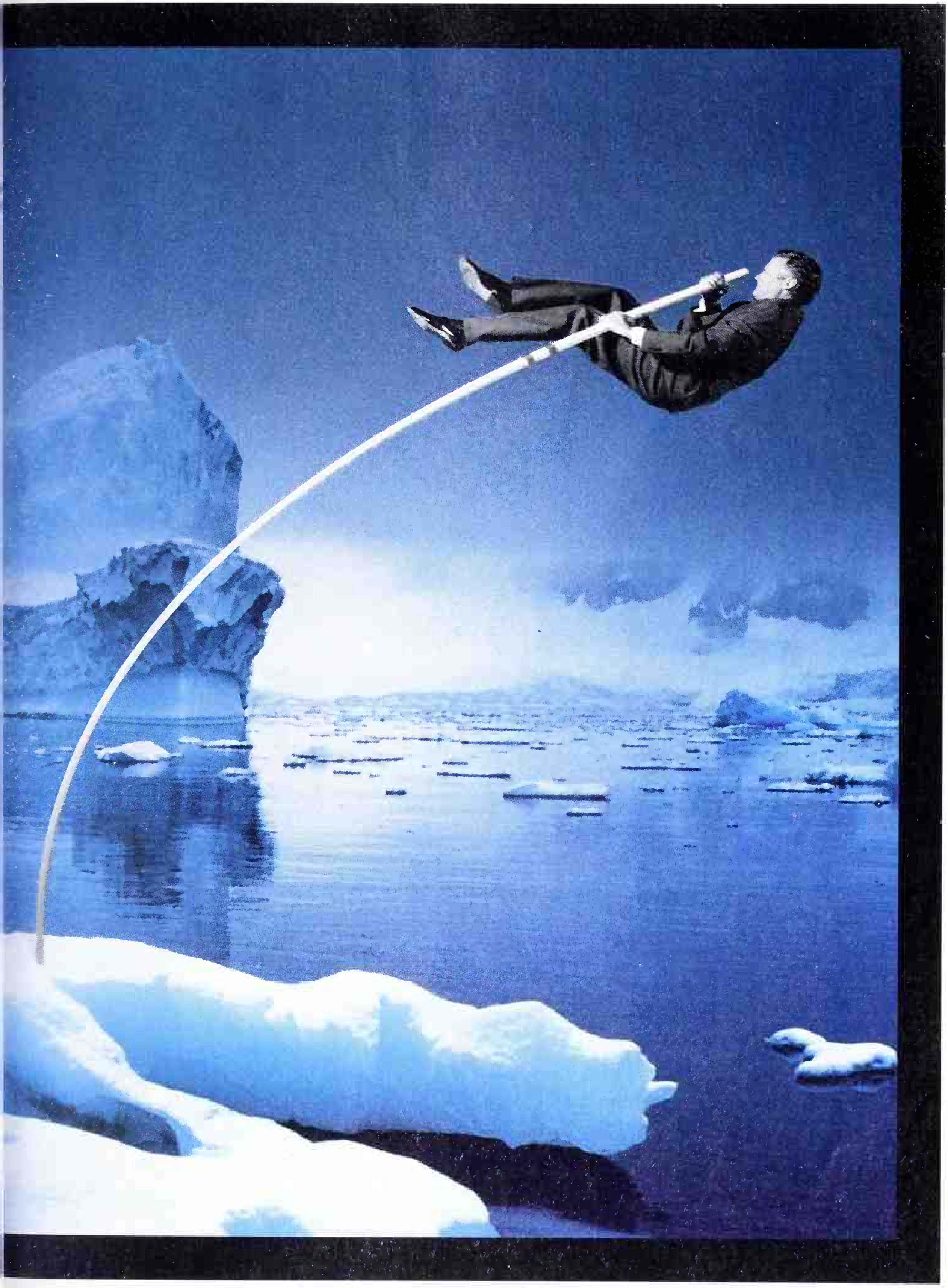

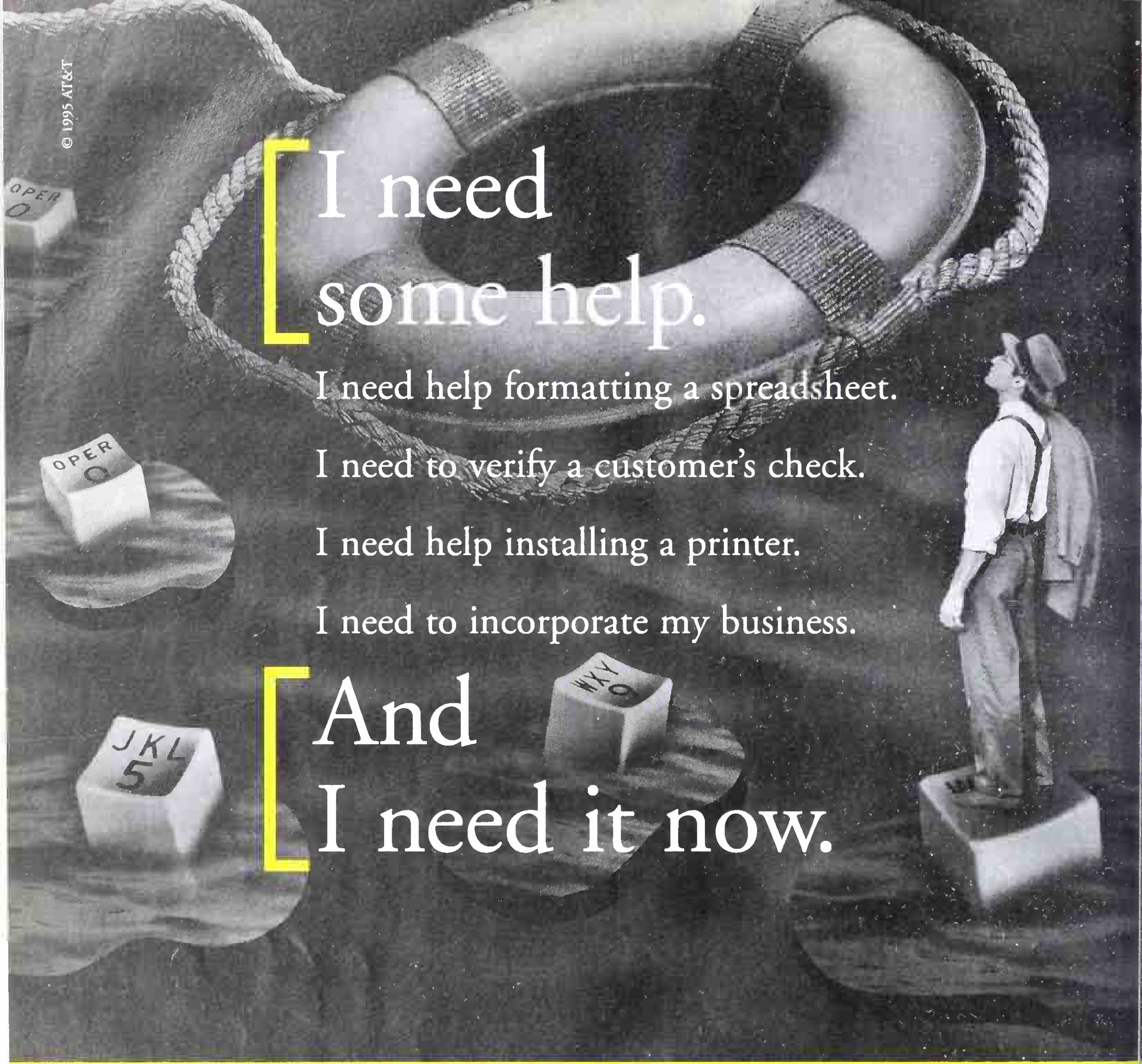

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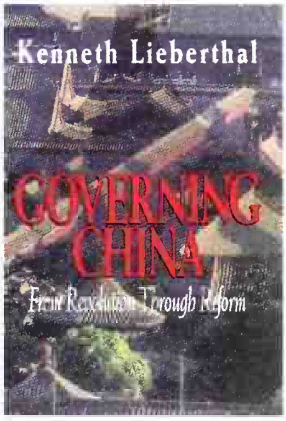
EADING CHINA'S ORTUNE COOKIE

These are hard times for China
watchers. Some of the most wide-
ly accepted beliefs about the
ntry's political system are being put
he test. For instance, sinologists
e long told us that the key to Chi-
future was whether or not reform-
eng Xiaoping would manage to out-
his conservative rival, Chen Yun. In
il, Chen died at age 89. So Deng
s. But with the 90-year-old Deng
self on his deathbed, outlasting Chen
sn't seem to matter
much anymore.

enneth Lieberthal, for-
director of the Uni-
ity of Michigan's Cen-
or Chinese Studies and
of America's most re-
ted China experts, is
ly aware of the diffi-
y of anticipating what
happen in the Middle
gdom. But he isn't
king from the task. As
jockeying for national
er breaks into the
n, Lieberthal's new
, *Governing China*, attempts to pre-
the direction the world's largest na-
will take under whatever leaders
rge.

ieberthal goes far beyond the ques-
of succession to describe how the
ese state and the Chinese Commu-
Party manage to rule one-quarter of
world's people. He presents two
s of looking at the system. One focus-
n the formal organizations—the state
the party. A second and superior
oach, according to Lieberthal, high-
s a power network that is “virtually
sible on China's organization charts.”
e, formal structures and hierarchies
n little, since power derives from
of personality and connections. “The
35 individuals who... oversee virtu-
all sectors of work and politics personally redefine the real rules of the game on an ongoing basis,” Lieberthal writes.

According to this logic, government and party officials owe allegiance less to their nominal superiors and more to their informal patrons. Lieberthal tells how he once got permission from a top official of a state-owned store to inspect certain documents. But that decision was then vetoed by the head of the store's personnel department, who, by virtue of his place in the informal network, was able to refuse the order of his “superior.”



With personality and connections playing so large a role, China has made little progress in developing a stable political system that checks its top leaders' power. “Those at the highest levels of the Chinese system are above the law,” Lieberthal writes. “Indeed, for the most part what they say practically has the force of law.”

At the same time, the state itself, as Lieberthal describes it, is far less dictatorial than many outsiders believe. More than 15 years of economic reform have severely weakened both the formal organizations and the informal network. As a result, governing in China today involves almost continuous negotiations among national, provincial, and local leaders. This, Lieberthal says, is best described as “fragmented authoritarianism.”

This fragmentation helps to explain how difficult it is for China's leaders to address their biggest problems. For instance, no consensus exists about the next stage of economic reforms. Central-government leaders such as President Jiang Zemin have wanted to slow economic growth to control runaway inflation. But others, including a great num-

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Books

ber of powerful local leaders, say the emy is unemployment, not inflation and that the best way to avoid social unrest is through faster economic growth and more jobs. A deadlock has left amb reforms on hold.

Of course, provincial leaders, wh ten have top positions at local co nies, also stand to make a lot of m from faster growth. In weighing power of these bosses, Lieberthal m an opportunity to look at how their sions can be influenced by ordinary nese. Since the government forbids ple from organizing, most Chinese few opportunities to shape laws and icies that come down from on high. once Beijing issues its orders, the have to be implemented at the local el. That's where citizens can have influence.

Beijing's edicts are carried out at the loc level, where citizen do have some influen

Lieberthal also doesn't delve m into the growing influence of China's islatures, such as the National Peo Congress. While he dismisses the as still largely ceremonial, other scho say it is hardly the rubber-stamp pa ment it once was. For instance, one cial connected to the State Council or Cabinet, in private has complained bit ly about rival officials from the NPC, had the nerve to inform him that t not the State Council, get to write laws. And last March, a record num of NPC delegates voted against Jia handpicked nominees for Vice-Premi

Still, at a time when so much co sion about China exists, *Governing Ch* provides valuable lessons—for both general public and American policym ers. For instance, during the fight intellectual-property rights between U.S. and China a few months ag U.S. trade official said he couldn't un stand why Beijing was unable to enf its laws against counterfeiting. Of cou the central government could get the cals to do what it wanted, the U.S. cial said. After all, "it's a police sta It's that sort of overstated view of C na's political system that Lieberth book can help change.

BY BRUCE EINHORN

Einhorn is BUSINESS WEEK's *A editor.*

STEPHEN H. WILDSTROM

TRANSACTION EVOLUTION?

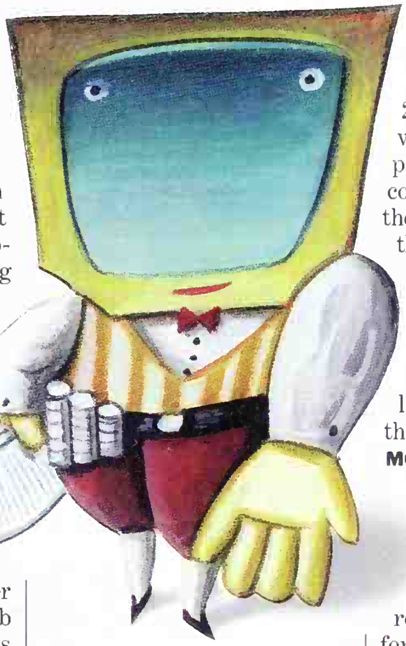
Has a cashier ever scowled when you tried to pay for a $2 chase with a credit card? at if you wanted to use card to buy something th a dime? Or maybe a ny?

ou couldn't do it—and for eason more fundamental n surly sales clerks. nsaction fees for the k network that handles lit-card purchases would up the retailer's prof- and then some. Today, are a major impediment the sale of information r the Internet, too. But ap processing of micro- nsactions—such as selling opy of this column— ld revolutionize the of information.

he Internet currently ks best for people want to give rmation away. example, Gener- Electric Plastics kes thousands of es of technical prod- information available over World Wide Web p://www.ge.com/gep), thus ing the cost of printing mailing or faxing the a.

IE CHARGES. But compa- s selling data have limited ices. They can give access y to paid subscribers, ich inhibits casual or occa- nal buyers. The alterna- e, used by BUSINESS WEEK line on America Online, re- on a service that bills you the amount of time on- e, then shares revenue h data providers. Time rges and subscription fees on your credit card.

Internet commerce requires hiding credit-card numbers from prying eyes and building links between the wide-open Net and supersecure financial networks. Companies such as Terisa Systems and First Virtual Holdings have solved the problems to the point where sizable credit-card transactions are becoming routine on the Net. But the current credit-card network is very expensive, partly because it needs huge capacity and backup systems to ensure that every transaction gets through without delay or error. "We have a minimum transaction of 31¢, and we'd have to take nearly all of it," says Nathaniel Borenstein, chief scientist for First Virtual (http://www.fv.com), which links the Internet to the banking network.



The trick to selling bits of information inexpensively is keeping small transactions off the bankcard system. Computer scientists at Carnegie Mellon University in Pittsburgh, with funding from Visa USA Inc. and the National Science Foundation, have developed a system called NetBill (http://www.ini.cmu.edu/netbill/). It uses digital signatures to verify both the identity of buyers and the delivery of information. The cost can then either be debited from a prepaid NetBill account or accumulated with other transactions and sent to the bankcard network.

Either way, the absence of a live connection to the bankcard network drastically lowers costs. NetBill Co-director Marvin Sirbu hopes to get the processing cost down to 1¢ or 2¢ per transaction: "We want to be able to sell a page for a dime, so that it costs as little to get it off the Net as it does to walk to the library and make a copy of a journal." This fall, NetBill will premiere as part of an NSF-sponsored effort to make the contents of major research libraries available on the Net.

MONOLITHS. The ability to make micropurchases could revolutionize the distribution of information. Sirbu compares the current situation to retailing in the 1960s, before bankcards hit the scene. Department stores dominated the marketplace, partly because only they had the wherewithal to let you charge purchases. Visa and MasterCard made it possible for any merchant to offer credit, and the retail monoliths faded.

Services such as America Online and CompuServe are the online department stores. But as NetBill and others become available, how small can transactions get? "Nobody has built a penny-a-joke business yet," says First Virtual's Borenstein. But someone probably will.

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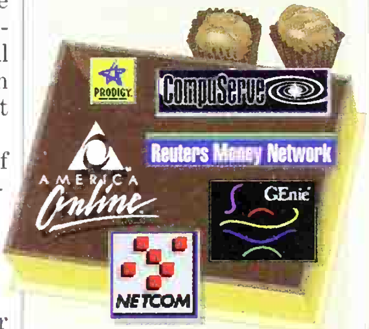

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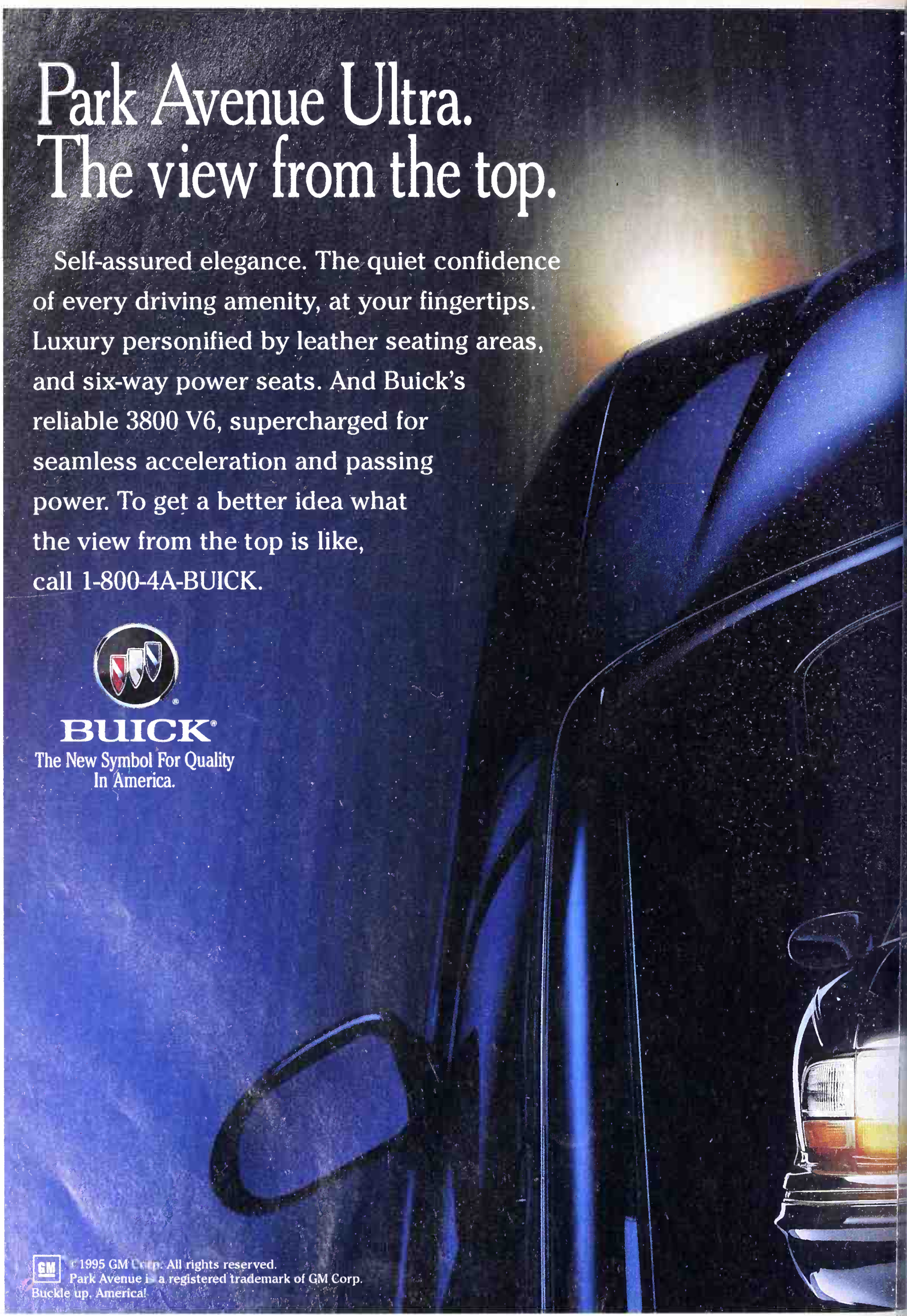

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Economic Viewpoint

BY RUDI DORNBUSCH

THE INFLATION BEAST IS ASLEEP —NOT SLAIN

ANXIETY: Bond markets, once skittish, are now overconfident. But inflation could return at any moment. Would the Fed hang tough?

Rudi Dornbusch is professor of economics and management at the Massachusetts Institute of Technology

Bond markets around the world, with Germany and the U.S. in the lead, are celebrating the end of inflation. The immediate cause is the long-awaited slowdown of the U.S. economy. Markets had bought into the dogma that the Federal Reserve Board never has the foresight and resolve to act in time and stop inflation before it gathers momentum. They also had long believed that once the economy reached full employment, inflation would be just around the corner. For the time being, the markets have been proven wrong on both counts. The Fed has engineered a soft landing, and inflation, far from being around the corner, seems well down the road.

So much for the good news. The bad is that inflation remains unfinished business. Markets have swung from excessive skepticism to unreasonable confidence. Later in the year, they may well be surprised by a burst of inflation, especially if the slowdown in the U.S. proves temporary. The conviction that the recurrent problem of overheating is vanquished is premature.

Forecasts for inflation around the world show that in every major economy, inflation is beginning to climb—however modestly. In the U.S., according to *The Economist*'s consensus forecast, consumer prices will rise 3.7% next year, compared with 3.3% this year, while in Germany, consumer prices will rise 2.7% in 1996, up from 2.3% in 1995. In the past, such small increases would have been shrugged off—inflation starts in earnest at 5% or 6%. Today, they should prod monetary authorities to respond or risk undermining the newfound confidence in moderate inflation. Central bankers must be even more watchful if output remains strong enough to prevent slack from developing in the economy. Otherwise, credibility will suffer, and a much more dramatic fight will have to be staged down the road.

HONEYMOON'S OVER. In some countries, such as Canada and Britain, the honeymoon of disinflation is over, though unemployment remains high. This will soon be true in Germany. The inflation reduction of the past few years has been impressive, but recent wage settlements have been uncomfortably large. Although a strong mark is containing inflation for now, the respite is temporary. Later in the year, German rates will have to rise, and that will force rates up throughout Europe. The Bundesbank was right in recent years to ta
a stand on inflation and drive it back dov
But the task is incomplete, and a return
that vigilance is only a question of time.

For the past decade, inflation has av
aged less than 4% in the U.S.—an importa
achievement. But that record will be tested
the year ahead. Over the past two years,
flation averaged only 2.4% annually. This ye
it is expected to rise to 3.3%, and next year
could rise to as much as 4%. Wage sett
ments have been restrained by the wide-op
deregulated, competitive economy. Yet p
ductivity growth is tapering off, wage
straint will weaken in the face of strong pr
its, and the large drop in the dollar and
boost in commodity prices are putting in
tionary pressures in the pipeline. It does
take much to get from here to 4% inflati
and getting there will raise the question
just what level of price increases the Fed
prepared to accept.

POLICY SHIFTS? Victory over inflation is
won in a single battle. It requires steady v
ilance and repeated and uncomfortable
straint every time the party gets going. Co
petition and open markets dampen the cycl
resurgence of inflation, but they most d
nitely do not eliminate it. We are not in a n
world without inflation; we found that out
1989-90 and will likely learn the lesson ag
within a year.

If and when the U.S. economy rebou
late in the year, higher interest rates will
appropriate—even if they risk bringing o
slowdown in the upcoming election year. F
ther, if election politics usher in tax cuts
fight the slack, the Fed would feel compel
to offset the stimulative effect with still hi
er rates. The politics of Fed policy will
complicated next April, when Chairman A
Greenspan's term of office expires. Will Pr
ident Clinton reappoint a Fed chairman w
would be willing to slow the economy at s
a delicate time, or will he shift Treasury S
retary Robert E. Rubin to the Fed, seek
to capitalize on Rubin's semiconservative c
dentials in order to get an expansion go
without causing a ruckus in the bond mark

The past year may have been reassur
on the inflation front. But the real test
how much the Fed has changed and h
committed it is to price stability will co
over the next year. With these issues ahe
why is the bond market so complacent?

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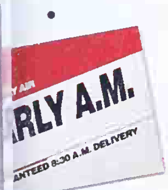

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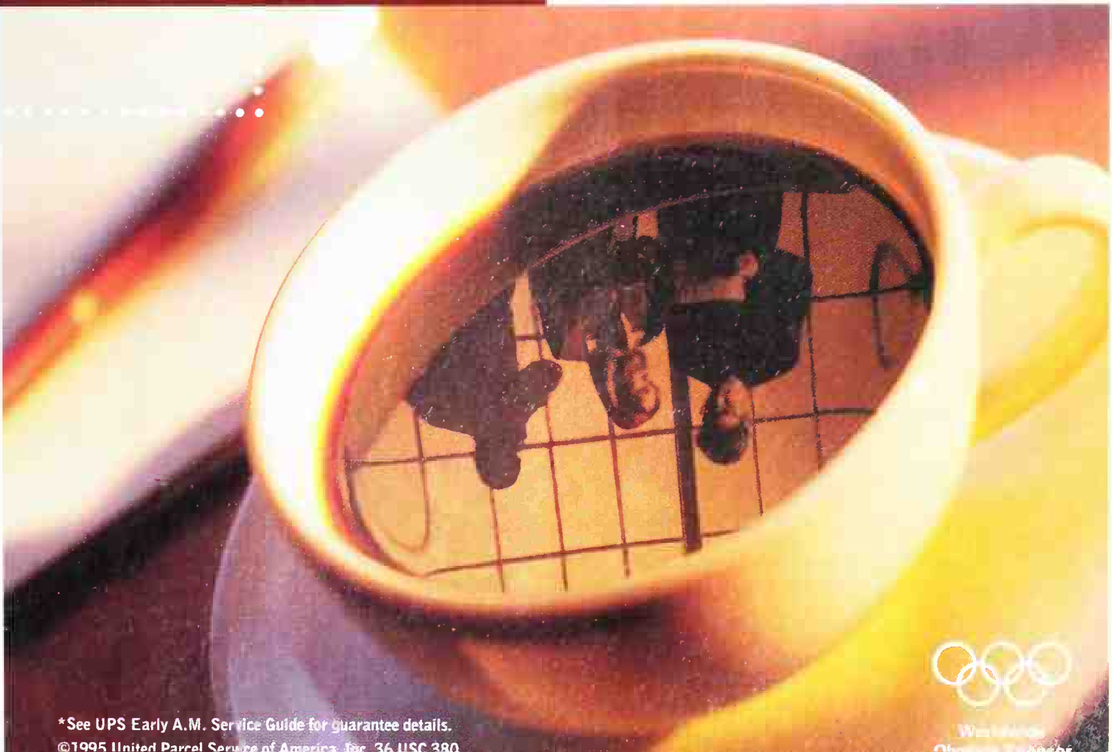

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Economic Trends

BY GENE KORETZ

LESS RED INK IN THE U.S. BUDGET

April tax receipts made a difference

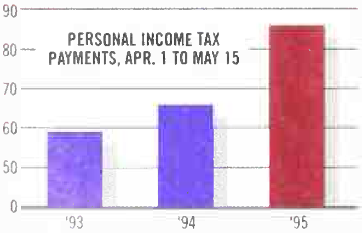
Not too long ago, budget watchers were boosting their estimates of fiscal 1995's deficit in the wake of growing outlays for interest on the national debt. Indeed, the Administration's own deficit projection in February showed a mere $10 billion decline from last year's $203 billion shortfall.

Now, however, experts at Morgan Stanley & Co. see a significant improvement. "We think the deficit could come in as low as $165 billion to $170 billion," says economist David J. Greenlaw.

The recent slippage in interest rates has obviously contributed to the brighter budget outlook. But more important, says Greenlaw, is an unexpected surge in income-tax receipts during the April taxpaying season—a surge that Greenlaw believes helps to explain the slump in consumption early this year.

According to the government's tally, consumers have had to ante up a much larger chunk of final settlements on 1994 income-tax liabilities than they did in former years. In 1994, for example, individual income-tax payments from Apr. 1 through May 15 were up only $6.9 billion, or 11.7%, over 1993. This year, such receipts over the same period soared by more than 30%, or $20.1 billion.

A SURPRISING SURGE IN TAX PAYMENTS



▲ BILLIONS OF DOLLARS

DATA: INTERNAL REVENUE SERVICE

It's likely that consumer spending was also restrained by a slowdown in the pace of income-tax refund disbursements by the government earlier this year. Because the shortfall relative to year-earlier trends never exceeded $6 billion and was entirely eliminated by mid-April, however, Greenlaw believes the big increase in final tax payments in April is the true culprit behind the more recent sag in consumer demand.

Why the jump in tax liabilities? Some of it may be due to a rise in capital-gains realizations last year by stock and bond market investors, and some may reflect payments by the relatively few taxpayers who chose to defer part of their liabilities from the 1993 tax hike. But a key reason, argues Greenlaw, is the delayed effect of the record wave of home-mortgage refinancing inspired by low interest rates in 1992 and 1993.

Greenlaw believes the refinancing boom significantly lowered homeowners' mortgage interest tax deductions for 1994, causing many to pony up higher final tax payments in April. Indeed, mortgage debt service payments fell to 5.7% of disposable personal income last year from 7% a few years earlier.

Looking ahead, Greenlaw thinks that the inhibiting impact of the April tax hit on spending will soon dissipate. By July, he says, "personal consumption should be posting healthy growth again."

SPRINGTIME FOR TREASURY BONDS

'Tis the season for falling yields

Investors take note. Economist Lacy H. Hunt of HSBC Holdings Inc. observes that the U.S. Treasury bond market has exhibited a distinct seasonal pattern around this time of year for more than a decade.

From 1984 through 1994, 30-year Treasury yields tended to move higher from the end of March through mid-May and then to move lower through the end of June. On average, they rose 18 basis points in the first half of the second quarter and fell 22 basis points in the second half.

The record is not quite perfect. But in three of the four years when yields fell through mid-May, they fell even more through June. And in each of the three years when yields rose in the second half of the quarter, they rose significantly less than in the first half.

Hunt thinks the seasonal pattern may be related to the mid-May refunding of debt by the Treasury. Or it may reflect the draining of liquidity from the market as taxes are paid in April and then the restoration of liquidity as the Treasury gradually recirculates the funds back into the economy. Whatever the reason, however, he feels the seasonal pattern is another reason to believe that the bond market rally will continue through June.

A CURRENCY TILT IN EMERGING ASI

The yen exerts upward pressure

Market observers are predicting t most of the Asian Tigers—Ho Kong, Singapore, South Korea, and T wan—and such Tiger "cubs" as Malay and Indonesia, are likely to allow th currencies to rise against the dollar coming months. The reason: the stro yen is inflationary for their economi

Though the Tigers import a lot Japanese capital goods and componer their exports to Japan are relativ low compared with their exports to U.S. So they must steer a mid course between yen appreciation a dollar depreciation to dampen inflat while maintaining buoyant growth.

The catalyst in this scenario is a ing capital flow from Japan to the r of Asia. Rather than monetize this fl the Tigers are likely to allow their c rencies to drift higher while relying productivity gains and higher-value ports to maintain competitiveness.

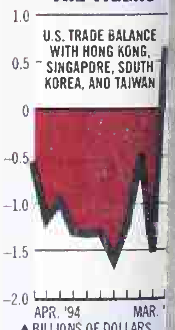
WHERE AMERICA EXPORTS THRIVE

Asian demand is on a roll

The soaring yen may be hurting Tigers by raising their product and debt service costs, but it's clea helping the U.S., whose exports emerging Asia hit $92 billion last yea nearly double their 1989 level. Indeed February and March, the U.S. ra trade surplus with the four Tig (chart) for the first time since 1981.

Noting that exports to Hong Ko Singapore, South Korea, and Taiwan are running 28% over 1994, economist Joseph Quinlan of Dean Witter Reynolds Inc. argues that yen appreciation is now enabling American companies to best their Japanese competitors in these markets. "If Tiger currencies also rise against the dollar," he says, "the appeal of U products will be that much greater."

THE U.S. TAMES THE TIGERS



▲ BILLIONS OF DOLLARS

DATA: COMMERCE DEPT.

ERIC HOFFMANN/BW

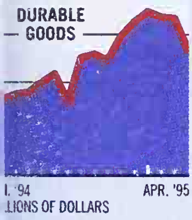
JAMES C. COOPER & KATHLEEN MADIGAN

XPORTS ARE ON STANDBY OR A RESCUE MISSION

U.S. ECONOMY Foreign trade is expected to be the expansion's cavalry this ; galloping forward just in time to rescue the econ- from a fate worse than slower growth. You only e to look toward the heated U.S.-Japan trade talks rasp how important trade has become. In fact, ex- s contributed more than a quarter of the growth of gross domestic product over the past year.

he worry is that trade will end up more like the omy's Little Bighorn. After all, depending on for- economies that are influenced by different cyclical ors and monetary policies can be risky. Already, vth projections worldwide have been downgraded use of the problems in Japan and Mexico, and Eu- 's recovery may soon lose its bloom.

FACTORY ORDERS SINK LIKE A ROCK



DATA: COMMERCE DEPT.

Exports should be able to hold off those attacks, however. The weaker dollar, increased productivity, and falling unit labor costs give U.S. manufacturers a big advantage over their competition. And emerging nations in Latin America and along the Pacific Rim will continue to increase their demand for capital and consumer goods, y of which will be U.S.-made.

course, bringing down the U.S. trade deficit will require slower import growth. Luckily, imports ld ease in response to weaker U.S. demand. Al- y, the durable-goods sector is losing steam (chart). the narrowing of the federal budget deficit contin- to be a drag on domestic growth. Little wonder, , that the Federal Reserve did the expected at its 23 meeting: It left interest rates unchanged.

N IF the outlook for the rest of 1995 looks good, rade picture hardly improved in March. Exports of s and services did rise for the second consecutive th, increasing 5%, to a record $65.3 billion. But rts hit their own new high, rising 4.3%, to $74.5 n. As a result, the trade deficit stood at $9.1 billion, t the same as February's $9.2 billion.

e March numbers indicate that the GDP net-export e won't change much when the Commerce Dept. ses its first revision to GDP on May 31. The wider deficit subtracted almost a percentage point from omic growth last quarter.

a result, trade did not offset what will likely be an upward revision to first-quarter inventory growth, which was already the fastest pace in 10½ years. Faster stockpiling suggests that real GDP grew at an annual rate of more than 3% last quarter, up from the 2.8% pace first reported.

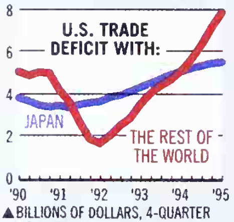
A BETTER-LOOKING first quarter is likely to come at the expense of the second, though. That's because retailers especially will have to wrestle their excessive inventories into better alignment with sales. That means fewer purchases of new merchandise. Already, orders for durable goods have been reduced to a trickle at U.S. factories, and fewer imports will be coming in.

New orders plunged 4% in April, the largest monthly decline in 3½ years. Although the drop was broad, the transportation sector accounted for about half of the fall, explaining the auto industry's steep second-quarter production cutbacks. Orders for nondefense capital goods also dove, indicating that business outlays for equipment, while still healthy, will not maintain their robust 1994 pace.

To avoid massive production cuts and layoffs, U.S. businesses will have to depend on foreign customers to keep assembly lines humming. That's why the latest economic forecast done by the Organization for Economic Cooperation & Development raises some doubts about the trade picture. The OECD forecasts that the 25 major economies will grow by an average of 2.7% this year. That's down from the 3% growth rate projected by the OECD back in December.

The two biggest factors in the downward revision were the questionable recovery in Japan and the financial crisis in Mexico. Those two countries are America's two biggest trading partners after Canada. But the U.S. trade deficit with Japan is the chief problem: In the past year, the monthly trade gap with Japan has averaged $5.5 billion, compared with the $7.9 billion deficit with all other countries combined (chart).

WHERE THE TRADE GAP IS MOST SEVERE



▲BILLIONS OF DOLLARS, 4-QUARTER MOVING AVERAGES

DATA: COMMERCE DEPT., BUSINESS WEEK

Even so, U.S. exporters will still carry the day, because 44% of their goods go to countries outside of Canada, Europe, and Japan. Most of these nations will grow faster than their more developed cousins. And because the dollar has fallen against the yen and mark, U.S. businesses in these markets have a price advan-

ERIC HOFFMANN/BW

tage over their Japanese and German competitors.

True, many emerging nations link their currencies to the dollar, so U.S. companies cannot directly cut prices when they export to these countries. However, they have a price edge over the Japanese and Germans, who must choose between raising prices or losing profits because of their stronger currencies. Increased sales to emerging markets is a key reason why export growth will continue to strengthen.

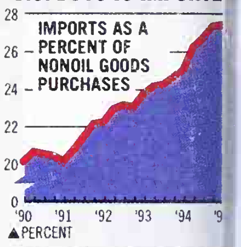
How important will exports be in the second half? If exports fail to sizzle, GDP growth could fall closer to 1% than 3%. That means higher unemployment and rising odds that the Federal Reserve's next move will be to cut short-term interest rates.

Foreign workers will also be hurt. First-quarter imports captured a record 27.4% of U.S. demand for nonoil goods (chart). That means overseas manufacturers will take a hit from the U.S. slowdown and inventory realignment. But weaker imports will improve the trade gap by a fair amount by yearend.

A CONTRIBUTOR to the trade troubles has been America's towering public deficit. The red ink of federal, state, and local governments, coupled with weak savings, has hiked the need for foreign funds to finance U.S. investment. That's why GOP efforts to balance Washington's finances may someday turn the tide on the trade deficit.

If the public posturing and behind-the-scenes lobbying are any indications, though, that process w't happen overnight. What will help this year, at least the prospect that the deficit in fiscal 1995 is on track shrink to its smallest total in six years.

MORE OF WHAT THE U.S. BUYS IS IMPORTE



▲PERCENT

DATA: COMMERCE DEPT., BUSINESS WEE

The Treasury Dept. reported a surplus of $49.7 billion in April, the largest monthly surplus on record, as personal tax receipts rose 27.3% from a year ago. The calendar played a part in the windfall: Because Apr. 1 fell on a Saturday, entitlement checks were mailed in late March, adding to that month's red ink.

For the first seven months of fiscal 1995, which ends Sept. 30, the deficit to $94.3 billion, half of its total in the same period 1992. That suggests that the budget gap could the year at less than $165 billion—the thinnest trai red ink since 1989.

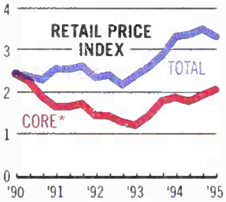
Of course, a shrinking deficit takes stimulus out the economy. Witness the defense cuts. Add in wea consumer spending and some slowing in business vestment, and these sectors tally up to weaker grov That's why in the coming months, foreign—not dom tic—demand will need to play a big role in keeping economy on the beam for a soft landing.

BRITAIN

HOW LONG BEFORE RATES HAVE TO RISE?

Is Britain's economy slowing to a noninflationary pace, or isn't it? Chancellor of the Exchequer Kenneth Clarke says yes. Bank of England Governor Eddie George says no. And the six "wise men" aren't sure.

BRITISH INFLATION: TAME, BUT RISING



▲PERCENT CHANGE FROM A YEAR AGO
*EXCLUDES MORTGAGES AND TAXES

DATA: DATASTREAM INTERNATIONAL, BW

Score Round 1 to the Chancellor. In the face of confusing data, Clarke is believed to have rejected George's May 5 request for a rate hike that would have lifted base rates for the fourth time since September from 6.75% currently. That came despite a still solid advance in first-quarter gross domestic product and a plunge in the British pound. Clarke's veto, coming just after the Conservative Party's local-election trouncing, seriously undermined his credibility with the financial markets as an inflation fighter.

However, sterling has since rebounded, and on May 24, first-quarter GDP growth was revised down. The details suggest that Britain is really two economies now: one driven by strong exports and one suffering from weak domestic demand. The downward revision gives Clarke the ammo to resist another plea from George at the June 7 policy meeting.

However, with price pressures building, Clarke may not be able to resist for long. While headline retail inflation slowed to 3.3% in April as the impact of new taxes faded, core inflation, minus taxes and mortgage costs, has risen to 2.1%, nearly a percentage point above its low point last July (chart). Core producer inflation has picked up even more, and de spite the GDP revision, growth re mains above its noninflationary trend of about 2.5%.

The central bank's May inflati report argued that, without high er rates, the government will no be able to meet its inflation target: 2.5% for the core retail pric index by early 1997. And on Ma 23, three of the six wise men, th government's independent economic advisers, said higher rates would be needed just to keep inflation below 4%. Clarke's dilemma: Raising rates could send the weaker Britain into recession, while no action could fuel inflati in the other Britain.

ERIC HOFFMANN/BW

orty-one firefighters couldn't put it out.

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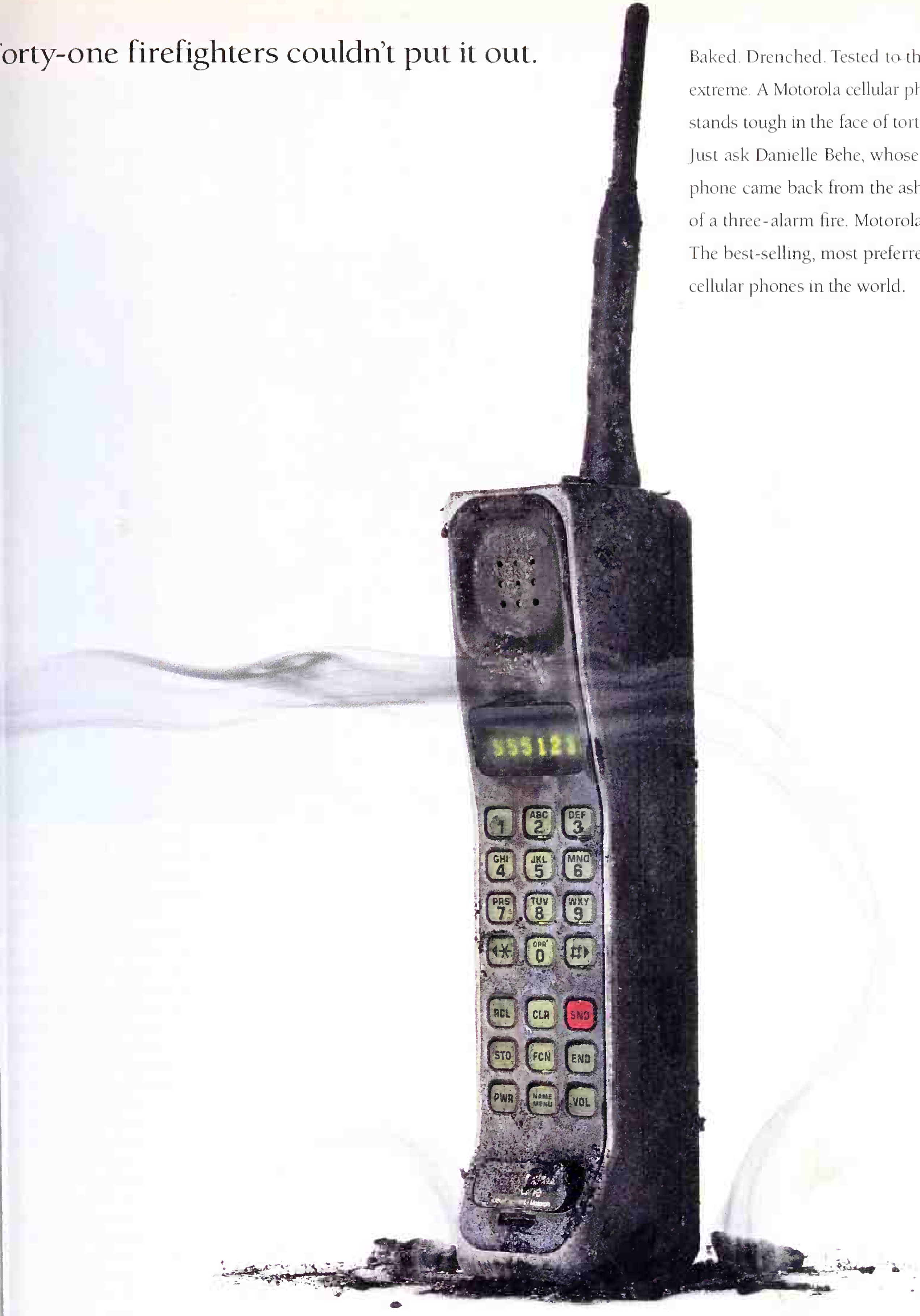
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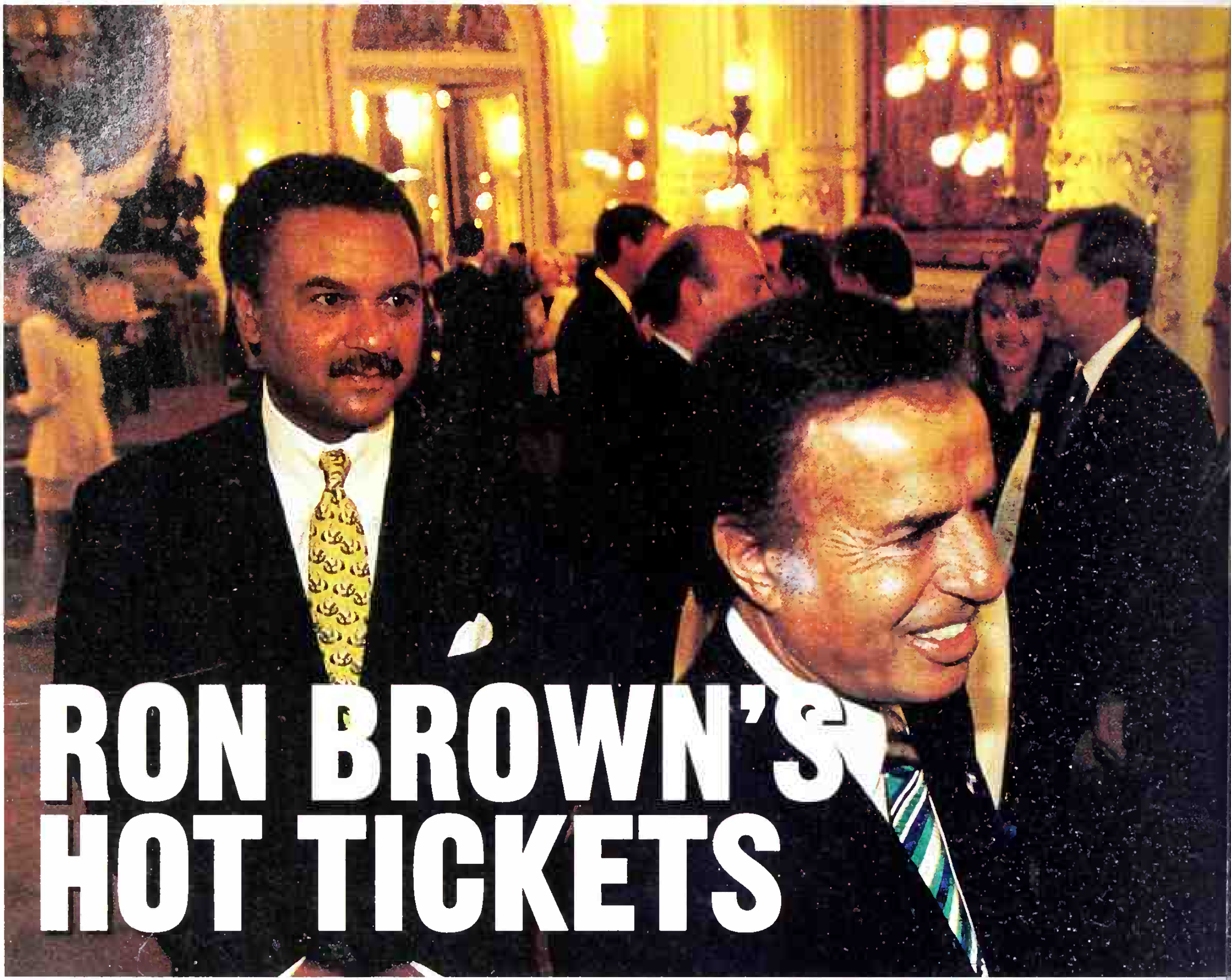


RON BROWN'S HOT TICKETS

GARY PAYNE/GAMMA-LIAISON

Did Commerce dole out trade-mission seats based on political pull?

When Texas executive E. Glenn Biggs sought a seat on Commerce Secretary Ronald H. Brown's trade mission to Latin America last June, he got a little help from his friends. James H. Fall III, a Treasury official, put in a good word for Biggs, then chairman of Texas TGV Corp. and a director of Diamond Shamrock Inc. In a May 31, 1994, memo to Commerce, Fall noted that Treasury Secretary Lloyd M. Bentsen "would be greatly appreciative of any assistance you could offer."

Fall wasn't Biggs's only well-placed connection. A few days earlier, Washington lobbyist Ronald L. Platt, a major Democratic donor and former Senate aide to Bentsen, had weighed in with a letter to Brown backing Biggs. In the end, Biggs got one of the hottest tickets in CEO-land, a seat on the Ron Brown Express. Did Bentsen get Biggs on board? "I'm sure it didn't hurt," says a Diamond Shamrock spokeswoman, who adds that the trip led to a tax ruling in Argentina that saved the company $20 million to $30 million. Biggs couldn't be reached.

UNDER FIRE. How important is political pull to landing a seat on Ron Brown's frequent trade trips abroad? Commerce Dept. documents recently ordered released by a federal judge after a suit by a conservative watchdog group show that it certainly doesn't hurt. The more than 30,000 pages suggest that influence has been an important factor for CEOs looking to seal megadeals overseas with Brown's help. Donations to the Democratic Party didn't hurt, either: A BUSINESS WEEK review of Federal Election Commission records shows that 15 of 24 executives who went with Brown to China, for instance, gave to the Democrats, either on their own or through their compani
On a trip to Latin America, 11 of
CEOs were donors.

It's hardly news that connections a
everything in Washington. But the doc
ments could prove damaging by raisi
questions about whether Brown's met
ods were fair and whether Preside
Clinton kept his promise to keep p
tics out of such initiatives. Brown, mo
over, already is under fire. An indep
dent counsel will probe whether l
personal financial dealings while a Ca
net officer violated criminal laws. T
issue may also lend GOP House memb
firepower in their efforts to disman
the Commerce Dept.—a move that l
gained support among the business co
munity despite Brown's success ov
seas, according to a recent BUSIN
WEEK/Harris Executive Poll (page 34

Executive support for doing away w
Commerce is surprising: Brown's tr
junkets have been immensely success
According to the Commerce De
Brown has led 9 trade missions for
CEOs, resulting in $25 billion in immedi

N (LEFT) AND
DENT MENEM
GENTINA WITH
S. DELEGATION

Connections, Connections

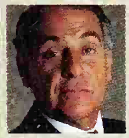
Some executives whose Democratic ties helped them secure seats on Ron Brown's trade missions:

JOHN ALLEN CEO of Allen & Associates International, got Democratic Senators John Breaux of Louisiana and Ernest Hollings of South Carolina to put in a good word for him. He went to Russia.

E. GLENN BIGGS chairman of Texas TGV Corp., went to Latin America. Backing his trip: James Fall, an aide to then-Treasury Secretary Lloyd Bentsen, and Democratic donor Ronald Platt.

LYNN FORESTER CEO of TPI Communications International, went to Latin America after Representative Edward Markey (D-Mass.) and Senator Daniel P. Moynihan (D-N.Y.) wrote letters for her.

WILLIAM GINSBERG CEO of Cellular Communications International, went to India after Philip Verveer, a college classmate of President Clinton, wrote a note on his behalf.



JAMES HARMON CEO of Wertheim Schroder, went to China after Tony Coelho, a Wertheim managing director who was also a top political adviser to Clinton, drafted a letter on his behalf.

DATA: COMMERCE DEPT. DOCUMENTS

s for U.S. business and an additional billion in follow-up contracts. Comce insists it assigned seats based on ine need for a government boost in ng deals.

he idea that politics played a role is iculous, unfounded, false," says a esman. Adds Melissa A. Moss, a merce aide who oversees the CEO tions: "We have a pretty darn rigorprocess in place, and there are no exions. Every company has legitimate s they're working on." Also, many ected executives were turned down. White House, for instance, unsucully lobbied to get Gerald McGowan, nton supporter and a board member e Cellular Telecommunications Inry Assn., a spot on a trade mission. McGowan: "It didn't work for me."

ill, critics note that Commerce offiare no strangers to the world of ical fund-raising. Brown is former man of the Democratic National mittee and Moss is a former DNC fie director. "This is what you get you put fund-raisers and political operatives into the realm of making policy decisions," say Joshua Goldstein of the Center for Responsive Politics, a nonpartisan group focusing on money in politics. Judicial Watch, the conservative legal group that forced the release of the documents, contends that favoritism badly tainted Commerce's selections. "The role of government is to provide equal opportunity, not special treatment," says Chairman Larry Klayman.

The problem: Unlike the federal procurement process, where standards are published and contractors bid competitively, the Commerce method of selection has been shrouded in mystery. Even some executives believe that political connections may have played a role in their selection. John Allen, CEO of Allen & Associates International, an intermediary for U.S. generic-drug companies doing business in former Soviet republics, accompanied Brown to Russia. Allen, a Republican, says he had been on an early list and then asked Democratic Senators John B. Breaux of Louisiana and Ernest F. Hollings of South Carolina to "give me credibility," to win a spot. He says: "I would like to think [their letters] helped, but our own success should have given us enough momentum to get us selected."

Another well-connected CEO was James A. Harmon of Wertheim Schroder & Co. Former House Democratic Whip Tony Coelho, a managing director of the company, sent Moss a letter on July 14 recommending Harmon for a spot on a trip to China last summer. "Your help on this means a great deal to me personally," he wrote. Coelho was a top political adviser to Clinton at the time. Harmon says he didn't know until recently that Coelho wrote on his behalf.

Others relied on Friends of Bill, such as Philip L. Verveer, who attended Georgetown University with Clinton. Verveer wrote to Commerce aides to boost the chances that William B. Ginsberg, CEO of Cellular Communications International Inc., would go to India a few months ago. In his Sept. 29 letter, Verveer, whose wife is an aide to Hillary Rodham Clinton, noted that Ginsberg was a "very generous donor" to the Democratic Party.

"ANOTHER FACTOR." Ginsberg says he was a logical candidate because his company held a 50% interest in an Indian cellular license. But he adds that Verveer's letter was "Phil's way of saying, 'This person is eminently qualified, but here's another factor to take into consideration.'" Says Verveer: "I would like to think that if a lot of people are equivalently qualified, if someone is a friend, they should consider that. That's traditional in this town."

Commerce documents also show that Sanford R. Robertson, president of Robertson, Stephens & Co., a San Francisco investment banking firm, was added to the China guest list at the last minute. Robertson was an early Silicon Valley supporter of Clinton, who held fund-raisers at his San Francisco home. Robertson says it was his business ventures, not his political connections, that won him a seat. His company was closing a joint-venture deal with a Chinese securities firm. He says he "got a lot of things going for several clients."

Brown's Republican foes claim this pattern confirms that the Commerce chief, in the name of flogging U.S. exports, put the government up for sale. The truth is murkier: Supersalesman Brown mixed business and politics. Now he and the Clinton Administration will have to deal with the fallout.

By Susan B. Garland and Douglas Harbrecht in Washington, with Gary McWilliams in Houston, Joan O'C. Hamilton in San Francisco, and bureau reports

(TOP TO BOTTOM) PHOTOGRAPHS BY DALLAS MORNING NEWS (BIGGS), STEVE ALLEN/GAMMA-LIAISON (FORESTER), JOHN S. ABBOTT (HARMON)

BUSINESS WEEK/HARRIS EXECUTIVE POLL

A BALANCED BUDGET OR BUST

American business has spoken: Balance the federal budget, even if it means giving up corporate subsidies. That's the message in a new BUSINESS WEEK/Harris Executive Poll of 408 senior executives. A decisive 57% of corporate leaders said balancing the budget was a "top priority" that will only happen by setting a strict deadline. Only 23% felt such a step might harm the economy.

Given a choice between balancing the government's books or slashing taxes, 79% of executives opted for budget balance. Yet few thought it would actually happen: Asked if Uncle Sam's ledgers would be balanced by 2002, 86% said no.

FULL STEAM AHEAD

Republicans and Democrats are arguing over how to balance the federal budget. Which of the following statements comes closest to your point of view?

a. Balancing the budget is a top priority that will only happen by setting a strict deadline	57%
b. Balancing the budget is a worthwhile goal, but drastic cuts in federal spending could jeopardize the economy	23%
c. The most important goal should not be balancing the budget, but rather setting different spending priorities	20%
d. Not sure/don't know	0%

SAYING YES TO SACRIFICE

Some Republicans say that the drive to balance the budget by 2002 will require most, if not all, business subsidies to be eliminated. Considering your specific industry, are you willing to forgo special tax incentives or spending programs for the sake of budgetary discipline, or not?*

a. Willing to forgo tax incentives	57%
b. Willing to forgo spending programs	56%
c. Not willing to forgo anything	10%
d. Depends on the circumstances	7%
e. Not sure/don't know	6%

NO SACRED COWS

I'm going to read you a list of business subsidies or incentives that might be eliminated in order to balance the budget. Should each of the following be eliminated or not in order to help balance the federal budget?

	SHOULD	SHOULD NOT	NOT SURE/ DON'T KNOW
1. Farm subsidies	83%	13%	4%
2. Incentives for energy development and efficiency	68%	27%	5%
3. Federal loan guarantees	65%	29%	6%
4. Export-promotion programs	59%	34%	7%
5. Research and development support for emerging high-tech industries	51%	45%	4%
6. Small-business grants and loans	49%	47%	4%

AXING AGENCIES

Supporters of a balanced budget are proposing to eliminate some federal agencies. Do you favor or oppose eliminating:

	FAVOR	OPPOSE	NOT SURE/ DON'T KNOW
1. Energy Dept.	71%	24%	5%
2. Housing & Urban Development Dept.	69%	27%	4%
3. Commerce Dept.	63%	33%	4%
4. Education Dept.	52%	46%	2%

* Respondents could pick more than one answer

READ OUR LIPS

Separately, GOP spending proposals would balance the budget by relying exclusively on spending reductions. As a last resort, would you favor or oppose modest tax increases to help balance the budget by 2002?

a. Favor modest tax increases	39%
b. Oppose modest tax increases	57%
c. Not sure/don't know	4%

TOP OF THE AGENDA

Which of these issues is THE most important to American business?

1. Balancing the federal budget	31%
2. Improving the U.S. educational system	28%
3. Helping to make U.S. companies more competitive globally	17%
4. Cutting taxes	9%
5. Fighting crime and drugs	6%
6. Reforming the welfare system	5%
7. Providing guaranteed health care for all Americans	1%
8. Reforming campaign finance laws	0%
9. Not sure/don't know	3%

NO TIME FOR TAX CUTS

Which do you think is more important—balancing the federal budget or cutting taxes for business and individuals?

a. Balancing the federal budget	79%
b. Cutting taxes for business and individuals	19%
c. Not sure/don't know	2%

YE OF LITTLE FAITH

All in all, do you think the federal budget will be balanced by 2002 or not?

a. Will be balanced	11%
b. Will not be balanced	86%
c. Not sure/don't know	3%

Edited by Michele Galen

Survey of 408 senior executives at corporations drawn from the BUSINESS WEEK 1000. Interviews were conducted May 19-23, 1995, for BUSINESS WEEK by Louis Harris & Associates. Results should be accurate to within 4.9 percentage points.

ALBERTO MENA/BW

HO'S AFRAID OF THE ORLD TRADE ORGANIZATION?

e last thing it wants to decide is the U.S.-Japan brawl

ne thing hasn't changed since the army of trade bureaucrats in Geneva switched the name on the door n General Agreement on Tariffs & le to World Trade Organization in uary. They still have a tendency to uss trade disputes endlessly, prefer- over a nice meal.

hat's why the protests of America sters that the WTO run roughshod over . trade law are over- n. Indeed, the dirty e secret about the global trade tribunal at its dispute-resolu- process is deliberate- et up to stall long gh to get both sides egotiate a settlement. TO bureaucrats were ng to test that pro- on something sim- than the escalating e tensions between J.S. and Japan—per- an obscure case as U.S. complaints Korea's regulations lating short shelf- for meat effectively out American pro- rs. The WTO's goal to build a foundation se law for more diffi- disputes and bolster olitical support in l capitals.

stead, *quelle hor-* The fledgling world court must make but by trying to re- an intractable and cally charged trade rel: The fight be- n Tokyo and Wash- n over auto parts. o is taking Washing- o the WTO for unilaterally imposing ariffs on Japanese luxury cars. The in turn plans to go to the WTO with ad indictment of Japanese practices shut out the U.S. parts. The U.S. would force the WTO to rule on so- invisible trade practices—murky s such as cartel-like dealings and ess-government collusion for which are no clear international rules. ve been thrown into the deep end on this one," moans a WTO official.

CHAIRMAN RUGGIERO: "THROWN INTO THE DEEP END"?

CARLO CARINO/CONTRASTO/SABA

STANDOFF IN GENEVA

The U.S. and Japan are starting cases against each other with the World Trade Organization. Here's how the process will work:

Step 1 The WTO will send the U.S. and Japan back to the negotiating table.

Step 2 If there's no resolution after about 60 days, the WTO can appoint a three-person panel to decide the case. The panel has six to nine months to issue findings.

Step 3 The panel's report may be appealed to another three-person panel. The appeals panel has 60 days to rule.

Step 4 The loser of the appeal must comply with WTO rules or negotiate compensation with the other country. If the parties can't agree on compensation, the complaining country may retaliate with tariffs.

DATA: WORLD TRADE ORGANIZATION

America's neo-isolationists are salivating. A Tokyo victory would confirm their suspicions that the WTO is an all-powerful global court poised to impose one-world government on the U.S. "If Japan wins, it makes it clear we ceded a major part of our sovereignty," says economist and WTO opponent Pat Choate. The trade nationalists have been egged on by predictions that Washington has set itself up for a big fall. Japan's narrow case is widely considered a slam-dunk for Tokyo because WTO rules clearly ban a member country from hiking tariffs without approval.

But the likelihood is that the WTO ultimately won't pronounce judgment on either party. That's because of the design of the organization's dispute-resolution process (table). Even though Japan and the U.S. broke off auto talks in late April, WTO rules are about to send them back to the negotiating room. That means the two governments likely will have 60 days to work things out. If they can't, a panel of three trade experts will hear the case. If the panel finds in Japan's favor, the U.S. could appeal to another panel of bureaucrats. Along the way, both sides can keep talking. "There will be ample opportunities to settle this out of court," says Commerce Under Secretary Jeffrey E. Garten.

IN YOUR FACE. Still, leaving it up to the WTO entails risks for the U.S., Japan, and world trade. Despite the built-in mechanisms for consultation in the WTO process, the in-your-face rhetoric of top trade negotiators on both sides already has made it tougher to craft a compromise. And new WTO Director Renato Ruggiero, whose candidacy both the U.S. and Japan opposed, may lack the clout to bring the two sides together.

Privately, U.S. officials admit their case isn't as strong as Japan's. Many WTO members aren't rooting for Washington anyway. They would love to shut down U.S. use of unilateral trade sanctions, and many see Japanese-style collusive practices as "important tools in their economic development arsenal," says Clyde V. Prestowitz Jr., president of the Economic Strategy Institute. "A lot of people will think if America can win this case against Japan, it might come after us."

But rulings against the U.S. could hurt the WTO far more. It surely would provoke a protectionist backlash, stepping up pressure on the Administration to withdraw from the WTO and undermining the new global trade liberalization pact the U.S., Japan, and Europe labored seven years to create.

A chilling prospect, sure, but hardly the most likely outcome. Both sides in the bitter auto-trade feud have a huge stake in not letting it get that far. And the new trade tribunal, constructed over long, leisurely lunches, seems designed to make sure it won't.

By Amy Borrus in Washington, with Bill Javetski in Paris

LOBBYISTS

THE SALE THAT GOT AWAY

Pleas by dealers of pricey Japanese cars leave Congress cold

SUITED UP: *In town for a convention, 850 dealers descended on Capitol Hill*

Attired in finely tailored suits, starched shirts, and power ties, they piled off buses onto Capitol Hill, square-jawed and determined. A clutch of eager GOP lawmakers arriving for work? Nope. It was a revved-up contingent of luxury-car dealers in pursuit of The Ultimate Sale. Their quota: convincing Congress that the Clinton Administration's stiff tariffs on U.S. sales of Japanese luxury cars would cost thousands of American jobs.

On May 23, some 850 dealers—in town for the annual meeting of the American International Automobile Dealers Assn.—descended on the halls of Congress to plead for a reversal of President Clinton's sanctions on top-of-the-line Japanese cars. "We're in the middle of a war," says Kent Petersen, a dealer from Ogden, Utah. "We can't afford to sit on the sidelines."

It was the first official visit to the Capitol for Geoffrey Pohanka, 37, a third-generation auto dealer from suburban Washington. As he made his way to the office of Representative Tom Davis (R-Va.), Pohanka insisted that a 100% tariff on the Lexus and Acura models he sells could cripple his family's $200 million-a-year company. "Three generations of work," Pohanka says, "and this could bring down the whole business."

Fidgety and distracted by the C-SPAN broadcast on the TV in his office, the congressman listened politely to Pohanka's pitch. But Davis wasn't buying. "I'm not sure I agree with what the President has done," he noted. "But I'm not sure we want to undermine the Administration on this one." A half-hour later, Pohanka got the same sobering message from Representative Frank R. Wolf (R-Va.) The luxo-lobbyists "had a good point," Wolf said, "but I just don't know what Congress can do."

Indeed, the lobbying expedition proved the equivalent of wasting all day on a showroom tire-kicker with empty pockets. Even before the lobbying began, House Speaker Newt Gingrich (R-Ga.) had told the group that "Congress has no interest in fighting the Administration on this as the Japanese watc" Instead, he urged the auto dealers, w may travel to Tokyo during the co- ing weeks, to appeal to Japanese lead to negotiate a settlement with the U. before the June 28 deadline when tariffs take effect.

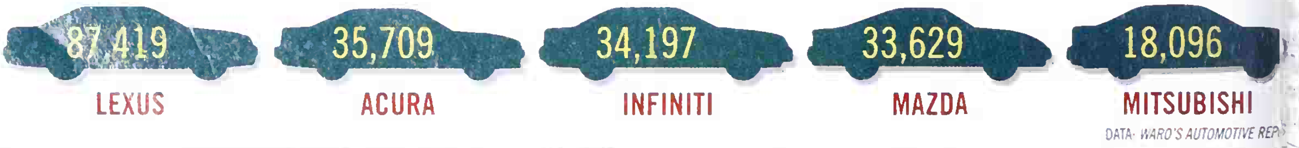
That was hardly what the deal had hoped to hear from GOP leade "We got a cold dose of reality," si one. The importers claim the targe high-end cars account for less than 1 of Japanese auto makers' Americ sales—hardly enough to put the carm ers out of business. In the U.S., by c trast, the AIADA claims that 2,000 deal ships could go bust, jeopardizing jobs of 81,000 people. "My lifestyle w change," insists Howard A. Keyes Lexus dealer from Van Nuys, Calif. " hit my employees."

"FEATHERED NESTS." Such complai didn't draw much sympathy. "The de ers are only worrying about their o little feathered nests," says Represen tive James A. Traficant (D-Ohio). I the lobbying blitz wasn't a total was At local dealers' urging, Representat Mark Foley (R-Fla.) called U.S. Tra Representative Mickey Kantor a White House Chief of Staff Leon Pan ta to plead for his constituents dur their visit. And the California delegat persuaded Representative David Dre (R-Calif.) to dash off a note to Kan imploring the Administration to "so the dispute with Japan before we w out one of California's most import industries."

Still, Congress isn't about to take the cause of several thousand spec ty-car dealers who cater to a well-hee elite—not when the U.S. governm is taking a get-tough trade stance that playing well with most working-cl Americans. Gingrich promised the de ers he would consider a financial bail for any of them forced out of busin by the sanctions. But that's a little lik used-car salesman swearing his clun is in A-1 condition. Dealers know best they can do is to sit tight—a hope the U.S. and Japan settle th differences. For merchants practiced the art of the deal, Capitol Hill prov one sale they simply couldn't close.

By Mary Beth Regan, with Rich S. Dunham, in Washington

TOP TARGETS 1994 sales of Japanese luxury models on the U.S. hit list



DATA: *WARD'S AUTOMOTIVE REP*

PHOTOGRAPH BY [illegible] GRAPHIC BY [illegible]/BW

BUCKLING
DOWN

TOS

VOIDING A
OTAL RECALL

tente in the U.S.-Japan
it-belt negotiations

y Japanese standards, it happened
with lightning speed. Just six
months after Japanese carmakers
e approached by the National High-
Traffic Safety Administration with
ries about seat belts made by
m's Takata Corp., they settled. On
23, the NHTSA announced that nine
ie companies involved—seven Japa-
e along with Chrysler Corp. and
eral Motors Corp., which sell some
inese-built cars—had agreed to fix
eplace the belts on 8 million-plus
cles. Ford Motor Co. and Daihatsu
or Co. are still negotiating.

'hy did the Japanese agree so
kly? Partly because it paid to do
'The Japanese manufacturers want-
o avoid a mandatory recall at any
," says a spokesman for American
da Motor Co. in Torrance, Calif.
reason: Had NHTSA investigators
d a safety defect that was causing
belts to jam, they likely would have
e the manufacturers replace the en-
buckle assembly of all 8 million
. By opting for a "voluntary" re-
the companies can negotiate less-
nsive solutions. For instance, deal-
for Nissan North America Inc.,
h will recall 2 million vehicles, now
must replace the release button
ie belts with a sturdier one—a 10-
ite procedure.

the end, the cost of the recall
ld be far below initial estimates of
illion. The biggest savings: Only
or so of car owners usually bother
ave their cars fixed during a re-
though the number may edge high-
r a safety-related recall. The total
should come to less than $250 mil-
split between the manufacturers
Takata. Not bad, considering the
native.

Larry Armstrong in Los Angeles

COMMENTARY

By Paul Magnusson

MY OTHER CAR IS A GARBAGE SCOW

First, a confession. The interiors of my two Japanese cars are crusted over with the rich effluvia of childhood. Just as rock strata reveal the passage of time, so do layers of baby formula, bananas, apple juice, Cheerios, and Chicken McNuggets catalog the progression of my two daughters from infancy into girlhood. I know I'm not alone in this.

Therein lies the official explanations out of Tokyo for the U.S. recall of 8.8 million Japanese-made cars with Takata Corp. seat belts. Americans, it seems, are messy. Tests by Japanese carmakers on vehicles driven in America revealed the presence of animal hair, food, and soft drinks in the belt latches, interfering with the mechanism. That means, insist Honda, Nissan, and the Japanese Transport Ministry, that the "voluntary replacement" of belts is a convenience for consumers and emphatically not a safety matter. It's the customers' fault, you see.

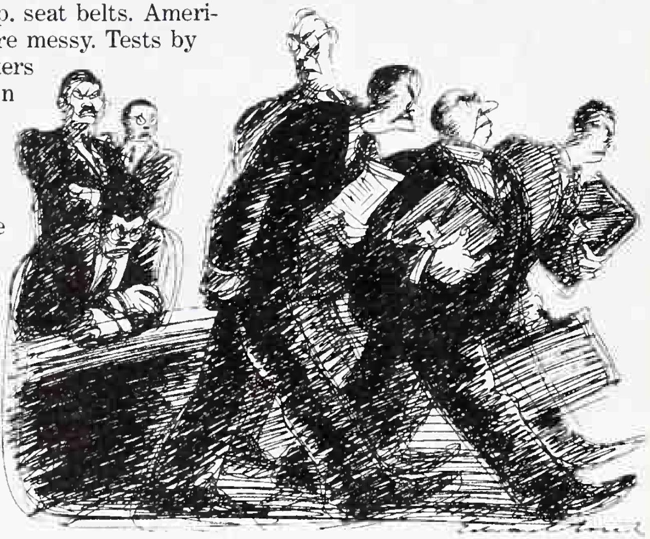
"IRRELEVANT." Yet the American subsidiaries of Honda and Nissan readily admitted on May 23 that the problem is a defect in the belt mechanism. The release button sometimes splinters and jams the entire gizmo. "I guess there could be food contamination, but that's irrelevant to the issue of button breakage," says a Nissan North America Inc. spokesman.

So here again is the essence of Tokyo's argument for the cause of America's $66 billion merchandise trade imbalance: a profound clash of cultures. Or, as the Japanese put it: *Nihonjin-ron*—the unique attributes of the Japanese people and their land.

As always, economics, not culture, is the true cause. But the issue of absolute Japanese singularity crops up frequently in trade talks. For years, Tokyo trade officials insisted that Japanese intestines are longer and therefore unable to digest foreign beef. Japanese snow is "different," they said, making non-Japanese ski bindings unreliable. And the dirt at Kansai Airport could be moved only by Japanese construction companies familiar with its peculiarities.

Now, add a new attribute to the list: Japanese car owners are neater. It's true, the cars in Tokyo are cleaner. But here again, the reason is less cultural than economic: Japanese cars, which have to undergo a $1,000 inspection after three years and every two years thereafter, don't stay on the road as long as they do in the U.S. It's cheaper just to trade that cream puff in for a new one. Used cars are shipped to the rest of Asia.

Japanese trade officials fault U.S. carmakers for not trying hard enough to crack its market. They note, for instance, that only Jeep Cherokees and Ford Probes are available with right-hand drive. Fair enough. But how about this: In return for well-placed steering wheels, let's see a seat-belt buckle from Japan that can stand up to the corrosive effects of bubble gum, lollipops, and Fruit Roll-ups.



Trade negotiators from the United States break off talks when Japan adamantly refuses to import any American C.E.O.s.

Magnusson reports on economic and social trends from Washington.

PHOTOGRAPH BY JOHN S. ABBOTT, DRAWING BY SOREL, © 1982 THE NEW YORKER MAGAZINE, INC

Links Sought as 3 Slayings Rock L.A. Apparel Maker

■ **Mystery:** Violence and threats directed against Carole Little spread fear through local fashion industry

UNDER SIEGE: *Police are looking in extortion, fraud, and organized cri*

CRIMES

DOES SOMEONE HAVE IT IN FOR CAROLE LITTLE INC.?

The company has been hit by explosions and three murders

The trip usually took 40 minutes. But at 6:05 p.m. on May 4, Rolando P. Ramirez' drive home from the office ended after just eight blocks. At a traffic light at the corner of Jefferson Boulevard and Main Street in South Central Los Angeles, his late-model Mercedes was riddled with bullets by a still unknown assailant. Ramirez, the 44-year-old controller of L. A.-based women's apparel manufacturer Carole Little, slumped dead over the steering wheel.

For a city where violence is commonplace, it would be easy to write off Rolando Ramirez as another grim statistic. But to the city police, he became the latest piece of a puzzling case in which a stunning series of killings and violent acts have rocked Carole Little, the $372 million clothing maker run by its namesake and her husband, Leonard Rabinowitz.

LITTLE: *Offering a $125,000 reward*

It's a tale that so far has baffled police, who are pursuing leads taking them from the murky world of garment manufacturing to organized crime, extortion, and fraud. The Federal Bureau of Investigation's organized-crime unit also is involved, though it won't comment on the investigation.

The death of Ramirez, a 16-year Carole Little executive, followed the shooting death last December of company Vice-President Kenneth Martin, who was gunned down while sitting in his truck at a red light. A year earlier, Carole Little executive Karin Wong Holzinger survived a highway shooting, two explosions at her home, and suffered through a series of harassing phone calls. Hakop Antonyan, whose company sewed garments under contract to Carole Little, was gunned down outside his Glendale (Calif.) factory the same night as the second explosion at Holzinger's home.

The execution-style killings of Martin and Ramirez have prompted investigators to focus on organized crime. Glendale police officials also are investigating whether Antonyan's death was "related to organized crime efforts to control a portion of the garment industry."

Another possibility: that rivalries within the $18 billion-a-year apparel industry have turned from nasty to violent. The business is full of factions, with large numbers of sewing shops competing aggressively for business. And Carole Little acknowledges that in 1991 and 1992, it began reducing its r ter of contractors from 90 to 20 or s

Investigators still are piecing toge er clues. Long Beach (Calif.) police s Holzinger claims she received extort threats telling her not to switch c tractors. Holzinger left Carole Lit shortly after the final explosion and recently filed a wrongful-dismissal s

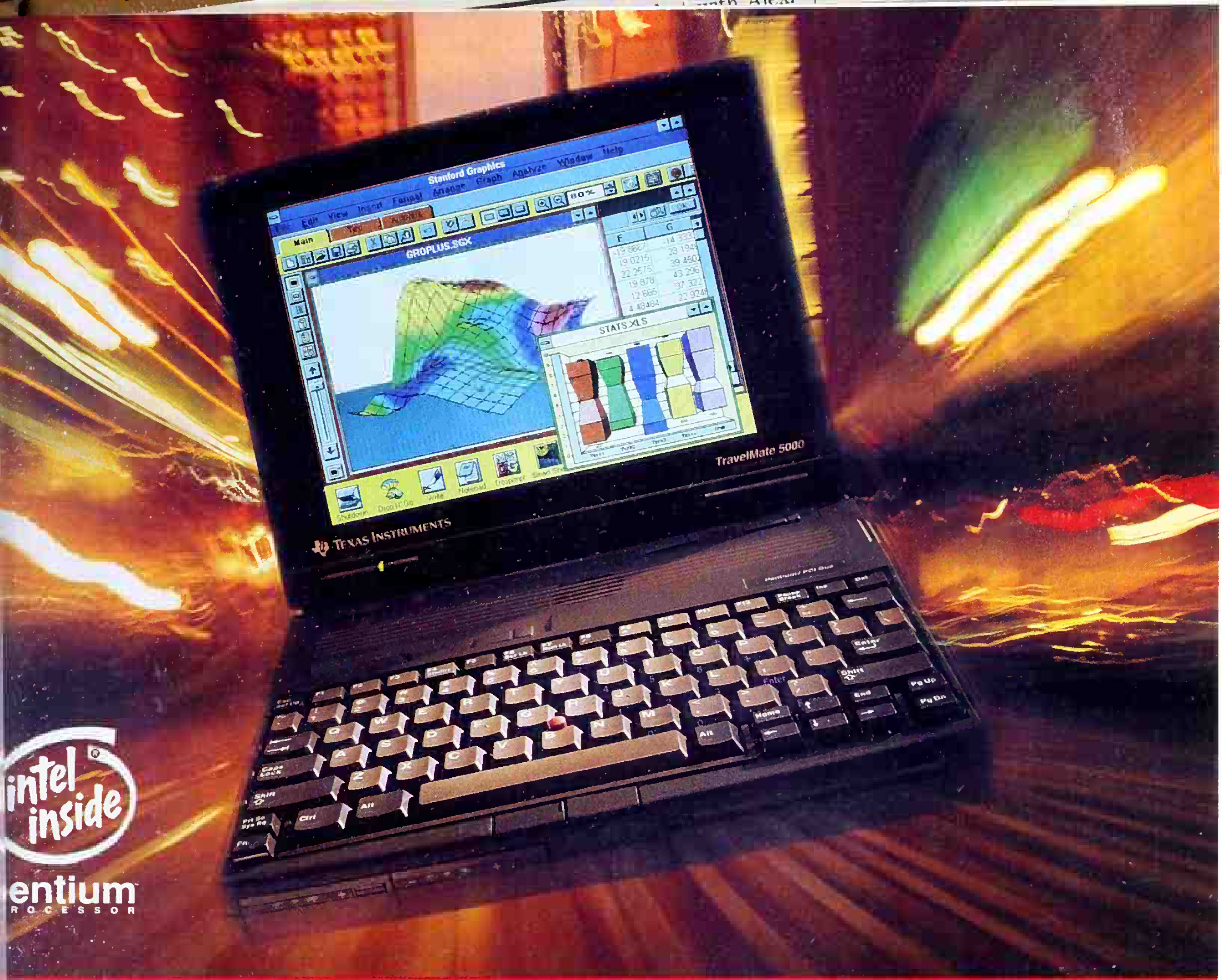
At present, only suspect custody is Kara Demirdzhyan, unemployed menian living Hollywood, w has been char with stalking Ant yan and killing him outside his Gl dale factory. Demirdzhyan is plead not guilty to the charge, and police h uncovered no motive that would ca him to be involved. In the other mur cases, police have made no arrests. "I got a city full of suspects," says De tive Fred Miller, who is heading the vestigation into the Ramirez slayin

FRONT-PAGE NEWS. Investigators h not ruled out the possibility that violence may be related to internal sues at the company, though police nied recent reports of an investiga into possible embezzlement there. company refused BUSINESS WEEK's quests to interview its executi though Rabinowitz gave limited resp es to several questions. "Both of [slain Carole Little executives] w very well liked," he says. "Our empl ees are devastated but feel good ab the LAPD Robbery & Homicide sponse" to the crimes. The comp added in a statement that it sees evidence linking the two murders. Li and city officials have offered a $125, reward for leads.

Police will not discuss safety me ures being taken to protect current ployees, but immeasurable damage already been done to the company's age. The affair has made the front p of the *Los Angeles Times*, for one th "What someone is trying to do is Carole Little out of business," s Stanley Weintraub, the company's mer manufacturing vice-preside Weintraub, who now oversees dr manufacturing at another Los Ang company, says he was let go by Ca Little in 1992 and replaced by Holzi er. "I'm relieved I'm not there." doubt.

By Nanette Byrnes in Los Ang

(TOP TO BOTTOM) ALAN LEVENSON, WENDI FITZGERALD/ST. LOUIS POST



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BASEBALL

AMERICA'S PASTIME. YEAH, RIGHT

Angry fans, falling club values. Baseball is whiffing

Back when baseball was fun, Robert Komie owned a choice piece of real estate: four box seats along the right-field line at Chicago's picturesque Wrigley Field. Now, though, clients of his carpet-cleaning company prefer basketball's Bulls. So Komie has given up his season tickets. And as a guest in a Chicago White Sox skybox on May 19, he left during the fifth inning, after the dessert cart came through. "I couldn't care less who won," Komie says. "I won't watch baseball now. It's too slow, too boring, the players are prima donnas, and the owners are arrogant."

In strike-scarred 1995, the Robert Komies of America are abandoning ballparks in droves. Baseball executives hope it's a pique that a good pennant race—or the end of the basketball and hockey playoffs—will cure. But increasingly, there is concern that the unresolved labor dispute is doing lasting damage to the game. Attendance is off, television viewership is down, and small-market franchises are on the ropes.

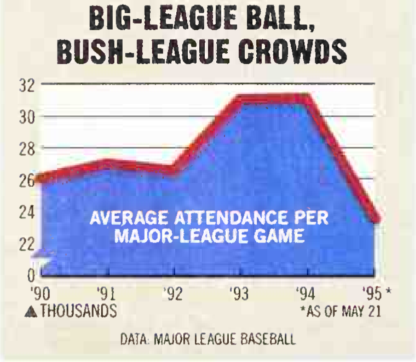
AILING BUCS. Now comes Walt Disney Co.'s May 18 announcement that it has purchased a controlling interest in the California Angels for an unimpressive $30 million. Unless baseball's economics change dramatically, that investment could signal the start of a series of low-ball deals. Without an agreement to share revenues among owners or a pay compromise with players, owners of small-market franchises may move to dump their clubs. And the teams could go cheap. "The day of the Baltimore Orioles selling for $175 million at auction are over," says Doug Metchick, general manager of Sports Franchises Inc.

The ailing Pittsburgh Pirates are set to change hands for a measly $86 million. The Kansas City Royals and Minnesota Twins are rumored to be on the block. Montreal, the winningest team in baseball last season, may be for sale. Toronto's vaunted Blue Jays could be sold, too, depending on the outcome of a takeover battle for parent John Labatt Ltd. (page 42). If so, a 25% decline in Toronto's home attendance this year won't inspire big-money bidding.

Even for top teams such as Toronto, fan rancor has grown and hardened. "For a lot of people, taking away the World Series last season was like taking away the American flag," says Philadelphia Phillies owner William Y. Giles. "I don't think we'll get a lot of people back until we get a labor agreement. And I think we've lost some people forever."

Despite strong showings in cities that boast fan-drawing new stadiums, such as Denver and Cleveland, attendance is down 20% leaguewide, as is television viewership. Television advertising billings have fallen as much as 30% in many markets. "Advertisers say: 'We don't want to put our money into a sport that the American public is rejecting,'" says James MacDonald, general manager for the Kansas City Royals' flagship station, KSMO. Teams have lost up to half of their game-day promotion sponsors. And prospects for block-ticket sales—a key attendance booster—have grown increasingly slim.

The scary numbers are pushing the owners into action. On May 19, they agreed to pay $7.8 million withheld from the player's pension fund after last summer's walk-out, ending a threat by the players to boycott July's All-Star Game.


BIG-LEAGUE BALL, BUSH-LEAGUE CROWDS

DATA: MAJOR LEAGUE BASEBALL

Even as players' union chief Donald Fehr and acting Commissioner Allan "Bud" Selig hailed the move as a pr ising opening for contract talks, tho no new negotiating sessions had b scheduled. In fact, few on either expect a settlement to be reached fore the season's end.

With nowhere else to turn for g news, owners are eager to talk ab the Angels deal. They hope Disn golden touch and entertainment im matur will rub off on a sport that lost its cachet among fans and sp sors. "I'm thrilled about Disney bec they know so much about family en tainment," says Giles. It could be the smart money is buying into base on the cheap. But before work be on the sequel to *Angels in the Outf* Disney will be stuck focusing on project that's vexing all of baseball r now: getting fannies in the seats.

By David Greising in Atlanta, Ann Therese Palmer in Chicago bureau reports

"For a lot of people, taking awa the World Series . . . was like taking away the American flag'

PHOTOGRAPH BY STEPHEN DUNN/ALLSPORT. CHART BY ALAN BASEDEN

The tallest recycling story ever told.

Suffice it to say, anything that's 2,232 steps to the top (in lieu of taking one of 104 elevators) is not your average office building.

Everything about Sears Tower is mind boggling. Like enough plumbing (25,000 miles) to go around the world. And enough telephone cable to encircle it 1 ¾ times.

It's sort of the Mount Everest of recycling challenges. So hopefully you'll have some idea of what it took to conceive a recycling program that now covers some 10,000 people working for sixty different tenants on over 100 floors.

You certainly won't have to use your imagination to appreciate the results. This year alone 1,200 tons of paper will be collected for recycling. An amount that, if baled and stacked, would be three times higher than the world's tallest building itself.

It could be just as surprising to find out what recycling could do for your business. Please call us at 1-800-977-6272. You'll find we don't mind challenges.

What business do we have saying we help the environment? That is our business.

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A WMX Technologies Company

PATENTS

NOT SO FAST, BUSTER

The Patent Office stalls TRW's bid for a satellite system

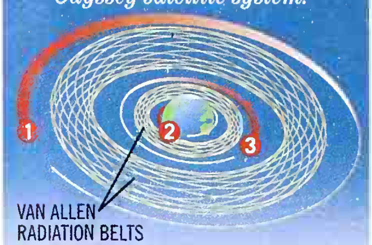
TRW Inc. was in the stratosphere. On Apr. 26, the company proudly announced that it had received two crucial U.S. patents for Odyssey, a proposed $2 billion, 12-satellite network. Its lofty goal: to dominate communications from a broad swath of the heavens—a 5,000-mile-wide band between the Van Allen radiation belts (chart). Patents in hand, the company hoped to build a cost-effective, lucrative entry into the potentially explosive satellite-phone business.

Trouble is, TRW doesn't actually have the patents yet. Its bragging, plus heated protests from Inmarsat, an international consortium that wants to launch satellites at the same altitude, caught the attention of the U.S. Patent Office, which had "allowed" but not awarded the patents. On May 12, the examiners decided to take a second look. Says Frederick R. Schmidt, the patent-examining group director who yanked the TRW patents: "We don't issue patents when there's a question with the prior art"—that is, when a new idea may not be new.

Now, examiners may reject some of the claims or force TRW to submit narrower versions. That would be a blow to TRW and its partner, Montreal-based Teleglobe Inc. In addition to Inmarsat, it faces well-heeled rivals in the race to offer global, satellite-based phone service. The $3.4 billion Iridium consortium, led by Motorola Inc., proposes a 66-satellite network. Globalstar, a venture of Loral Corp. and Qualcomm Inc., plans a $2 billion, 48-satellite system.

SPACE CLAIMS

TRW is seeking patents for its Odyssey satellite system:



① Traditional satellites fly 22,000 miles above earth.

② Proposed rival systems would fly as near as 500 miles. Because that proximity would limit their geographical reach, dozens or hundreds would be required to service the globe.

③ TRW plans an orbit of 6,400 miles. The company says that from that altitude, 12 satellites could service the earth.

FEWER "BIRDS." Against those rivals, TRW is pitting a good idea: Lofting its satellites into a higher orbit would let them see more of the earth's surface so that fewer "birds" would be required for global coverage. B
can a company pate
the use of outer spa
Inmarsat, which T
once tried to recruit
an Odyssey custom
says that's what T
is trying to do.
marsat's U.S. signa
ry, Comsat Mob
Communications, h
said TRW's claims
like Boeing trying
patent air travel
30,000 to 50,000 fee

Inmarsat has
reasons for opposi
the patents. Its s-
tem would employ
same space—althou
in order to serve
and sea customers,
satellites would co
the earth uniform
while TRW would fo
on populated areas

TRW isn't comme-
ing on Inmarsat's pl
In fact, it isn't say
anything: Afraid of
tagonizing patent examiners, TRW
gone silent on its applications. With
premature celebrations, though, it m
have endangered the real thing.

By Peter Coy in New Y

PEOPLE

LIFE OF THE BUYOUT PARTY

Gerald Schwartz sheds a low-profile image to tap Labatt

In the office towers along Bay Street, Toronto's Wall Street, Onex Corp. Chairman Gerald W. Schwartz is known as Canada's LBO king. Until lately, though, that has been something of an ironic moniker, given that most of Schwartz's major deals have been in the U.S. But with his latest move, Schwartz may earn his title: He's set on winning a hostile $1.7 billion tender offer for John Labatt Ltd., Canada's second-largest brewer and owner of the Toronto Blue Jays. Unless a higher offer emerges before his tender expires on June 9, he seems likely to win.

For Schwartz, 53, the Labatt bid is a departure—not just because the target is Canadian but because it's so well known. Since founding Onex in 1983, he has bought relatively obscure outfits. Among his best deals: the paltry $90 million Schwartz spent for stakes in six U.S. companies, including parts maker Automotive Industries and airline caterer Sky Chefs Inc., acquired from AMR Corp. Today, Onex' investment is worth some $500 million.

SHARING THE WEALTH. Schwartz's success formula? He gives managers up to a 20% stake in his companies and urges them to be aggressive acquirers. For instance, by this fall Sky Chefs expects to close on a $520 million buyout of Caterair International, another airline caterer. The move will make it the world's dominant in-flight caterer. It
will raise Onex' sales to $5.9 billion,
from $2.6 billion last year, when
earned $121 million.

Schwartz says he thinks he
make Labatt a "western hemisph
[beer] powerhouse." The brewer ha
22% stake in Mexico's Femsa Cer-
za. And if Onex' bid succeeds, it
get help in expanding from Quil
Industrial, the Argentine brewer t
is paying $231 million for a 27.
stake. Schwartz plans to shed ent-
tainment and European beer asset
help pay off the $1 billion of debt in
bid, though he says he intends to k
the Blue Jays.

FROTHY RETURNS?

Schwartz says he thinks he can turn Canada's No. 2 beermaker into "a western hemisphere powerhouse"

Trouble is, Labatt CEO George
Taylor opposes the bid, charging t
Schwartz is trying to "steal the c-
pany." And analysts figure La
could be worth up to 25% more t
Onex is offering. But Schwartz i
sure no higher bid will emerge t
he plans to spend much of the s-
mer sailing off Nantucket. If
right, Canada's LBO king will
over two of Canada's prized fiefd
Labatt and the Blue Jays.

By William C. Symonds in Tor

GRAPHIC BY ALAN BASEDEN. PHOTOGRAPH BY ERIN ELDER/MACLEAN'S

FABIO'S ARROW SHIRT

THE SHIRT OFF FABIO'S BACK? *An Arrow twill from our Pastime collection. Dress shirts that look good dressed up or down. Will you ever want to take one off? You may not have a choice.* YOU CAN TELL A LOT ABOUT A MAN BY HIS SHIRT.

A
ARROW

THE ARROW COMPANY
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CYCLE TIME MANAGEMENT
The Fast Track to Time-Based Productivity Improvement

NEEVE: *Can he protect "cycle-time management" from giant Motorola*

PETER SIBBALD

MANAGEMENT

'BUZZ OFF MY BUZZWORD'

Now, consultants are battling for control of choice phrases

What's in a buzzword? William W. Neeve obviously thinks there is a lot. For two years, this little-known Toronto-based management guru has been locked in what might be called a battle of the buzzwords with corporate giant Motorola Inc. Neeve says he dreamed up the term "cycle-time management"—shorthand for weeding the unnecessary out of business processes—and wants to protect it with a trademark from the U.S. Patent Office. He even calls his consulting company Cycle Time Management Inc. Motorola, which uses the phrase in management seminars and publications, opposes the Patent Office protection. The dispute currently is being adjudicated in U.S. Patent Court.

VALUES-BASED CHANGE
Emphasizing trust, candor, honesty, and integrity

The Neeve-Motorola dustup illustrates the latest twist in buzzwords: The effort by many consultants to gain control over key words and phrases by registering them with the Patent Office. Some are even trying to patent buzzwords now in common usage, at least among consultants. Andersen Consulting, for one, has drawn guffaws from rivals by claiming ownership of the phrase "change management." Technically, that means anyone who commercially employs the term, which is widely used to describe efforts to change a company's culture, could be sued by Andersen.

Such aggressiveness by big outfits is one reason Neeve is adamant about gaining control over "cycle-time management." He maintains that five Motorola managers attended a lecture he gave on the concept in 1987, a year after he founded his consulting firm in Canada. Soon, he argues, the phrase began popping up in Motorola publications and seminars. When he finally tried to register the term two years ago with the Patent Office, Motorola fought the move. "I have a file four inches thick on this, and it has already cost me about $50,000," the consultant grouses. Motorola says it believes the term is generic and shouldn't be protected.

In any case, it takes a lot of chutzpah to try to patent a buzzword. That's because the phrases often are used to repackage old ideas so they sound new. For instance, "joint ventures" became "strategic alliances" in the early 1980s and then "strategic partnerships." Now, they're often called "value-managed relationships" or "networks."

PROCESS-CENTERED ORGANIZATION
Structuring around processes, not departments

Of course, a choice word or phra can pack a lot of selling power if t catches on, providing the buzzwordsm with a slew of speaking engagemen consulting jobs, and book publishi deals. Michael Hammer, a consulta best known for promoting the concept corporate reengineering, concedes t the ideas behind his highly popu buzzword likely would have registe little more than a whimper under a ferent name. "Ninety-nine out of other alternatives were tedious and b ing and would put you to sleep," says. "If I used another term, it wo have fallen flat." But ev Hammer, who is beginn to lay the groundwork a phrase called the "p- cess-centered organi- tion," thinks it is silly try to protect a bit of c- jured vocabulary. "What you going to do? Spend all yo life in court trying to protect phrase]?" he asks.

COLLABORATIVE WORKPLACE
Rejecting hierarchy, embracing teamwork

"LIKE COCA-COLA." Hammer's ins- ciance hasn't stopped rivals from try to cash in on his term. Indeed, no cent concept has spawned more bu- words and phrases than "reengine- ing"—most of them now registered w the Patent Office. CSC/Index Inc. Cambridge (Mass.) consulting shop, h protected the term "business reen- neering." Coopers & Lybrand h claimed "breakpoint business proc reengineering." McKinsey & Co. ca the same thing "business process re- sign." Notes Edward M. Marshall, pr- ident of Marshall Group Inc., a cons- ing firm in Chapel Hill, N.C.: "If you a small guy with a creative idea a you don't protect it, your idea will knocked off as quickly as a desig dress."

As buzzwords go, "cycle-time m- agement" may well be nearing the e of its cycle. But Neeve says he plans continue his fight, figuring the phr still has value. "I crea something, and it's most like Coca-Cola me," he says. Besid he adds, "I don't le the fact that a lit company like mine be squashed by a g company like Motoro" Now, if he can just come up w a good slogan to use as his battle he might have a chance to win.

By John A. Byrne in New Y

In Business This Week

ITED BY KEITH H. HAMMONDS

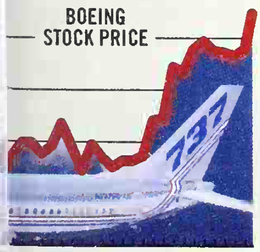
IOTHER TRASH AUL FOR HUIZENGA

TH HIS “BLOCKBUSTER
rk” dead and his Florida
rlins on a losing streak,
mer Blockbuster Videos
Wayne Huizenga has re-
rned to what he knows
st: hauling garbage. On
y 23, Huizenga and Harris
hit” Hudson, his brother-
aw, announced a $27 mil-
investment in Republic
aste Industries, to be
rged with another solid-
ste outfit owned by Hud-
. Huizenga now will com-
e head-on with WMX
hnologies, the industry
der that he founded in
8 and left in 1984. The plan
build Republic by buying
lsize solid-waste haulers—
ch sounds a lot like the old
Waste Management plan. Huizenga's move nearly tripled Republic's stock price, to $10\frac{7}{16}$, giving the erstwhile video king a quick paper profit of $96 million.

CLOSING BELL

SKY-HIGH

lines are making money
ain, and Boeing's new
siness is way up. Its orders
98 planes this year are
rth $5.5 billion, four times
at it had booked a year
o. Just the time for—more
offs? On May 23, Boeing
id it would cut 5,000 jobs,
p the 7,000 announced
ee months ago. The com-
ny says it has to meet car-
rs' demands for cheaper
nes. That's fine with in-
stors, who pushed the
ck to 57, just short of the
-time high it hit in 1990.



DATA: BLOOMBERG FINANCIAL MARKETS

THE CITI NEVER LEVIES AN ATM FEE

WHERE WOULD YOU RATHER bank? At First Chicago, which recently said it would slap fees on some customers who used human tellers? Or at Citibank, which on May 23 announced a kinder, gentler approach? Starting June 1, Citi customers, big and small, will have to pay precisely nothing to use automated tellers, personal-computer banking, and other electronic services. The irony: Citibank tried steering customers away from tellers in the early 1980s but retreated amid a crush of negative publicity.

THOSE DEFLATED RUBBER WORKERS

THE UNITED RUBBER WORKERS threw in the towel, ending their 10-month strike at Bridgestone/Firestone. No glorious victory, this: Bridgestone filled most of the strikers' slots with replacement workers. The company's strategy didn't thrill the Clinton Administration, but it did effectively win the battle. By unconditionally agreeing to return to work, most URW members will merely win preferential-hiring rights. Badly beaten, the union will meet on June 30 to vote on a merger with the deeper-pocketed United Steelworkers.

HEADLINER: WILLIAM AVERY

A TIDY PACKAGE FOR CROWN CORK

For a decade, William Avery labored in the shadows of Crown Cork & Seal CEO John Connelly. Cautious and debt-averse, Connelly expanded the company gradually. Then in 1990, Avery took over—and was quick to put his imprint on the packaging maker. In the past five years, he has acquired about 20 companies, more than doubling Crown's sales, to $4.5 billion.

On May 22, Avery took his boldest step yet—agreeing to pay $5.2 billion in stock, cash, and assumption of debt for France's CarnaudMetalbox. Avery's deal carries some risks: While it will make Crown No. 1 in packaging, with more than $10 billion in sales, it also will lift Crown's total debt to about 60% of capital. And the merger will give Compagnie Générale d'Industrie et de Participations, which owns 32% of CarnaudMetalbox, 20% of Crown and three seats on the combined companies' board.

Avery, a car collector who grew up on Chicago's South Side, is winning kudos on Wall Street for the deal: Crown's stock, trading at 37¾ on Jan. 1, reached 47¼ on May 23.

By Joseph Weber

NEWT JERKS LOBBYISTS' PERKS

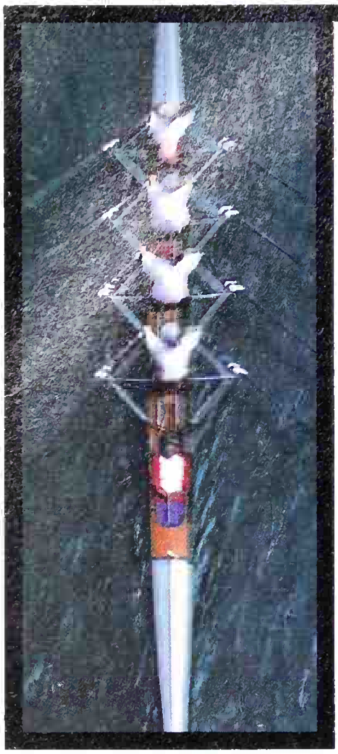
A BUDGET BATTLE? A TRADE policy? Let's skip to what really counts on Capitol Hill. On May 24, House Republicans revoked the passes that had allowed lobbyists favored by the old Democratic leadership to buttonhole lawmakers just outside the House chamber—an area out of bounds to the general public. About 6,000 people now hold the special-access passes, which also allow selected lobbyists after-hours entrée to Capitol Hill office buildings. Earlier this month, Newt & Co. finished taking away the same lobbyists' free-parking privileges. The GOP says it's just removing perks not available to the public.

INCENDY FACES A CASCADE OF CHARGES

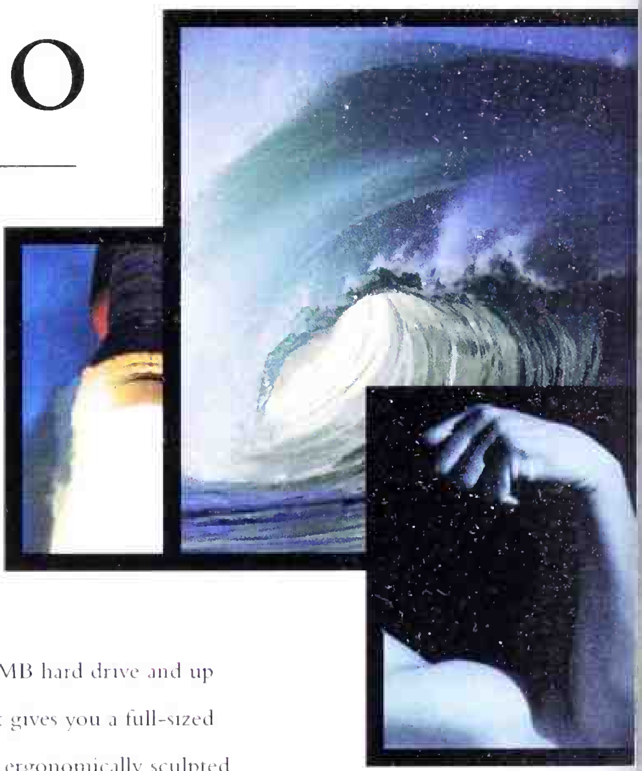
FOUR YEARS AFTER THE deed, the Cascade International scandal may be drawing to a close. A 132-count federal indictment was unsealed on May 23 by the Miami U.S. Attorney against Victor Incendy, his ex-wife, and three other people who had been involved in Cascade's $175 million fraud-and-stock-manipulation scheme. The Boca Raton (Fla.) retailer collapsed in November, 1991, after reports surfaced that it operated only a small fraction of the 319 fashion boutiques, cosmetic counters, and retail stores that it had advertised. Incendy disappeared and is now a fugitive. His ex-wife, Jeannette Incendy, was arrested on May 23 outside a health club near Jupiter, Fla.

ET CETERA . . .

- ■ John Bogle will give up the top job at Vanguard Group to President John Brennan.
- ■ Maurice Saatchi made peace with Cordiant, the successor to his old agency.
- ■ Wall Street veteran Joseph Perella will head Morgan Stanley's investment banking.
- ■ British Airways wrote off half of its ill-fated $400 million investment in USAir.



You *can* never *be* too thin *or* too powerful.



THE DIGITAL HINOTE ULTRA™ NOTEBOOK

The problem is, most notebook computers aren't all that thin. And the ones that *are* thin aren't remotely powerful. Which is why the Digital HiNote Ultra notebook borders on the miraculous. It gives you an i486™ processor as fast as 75 MHz. It gives you a 340 MB hard drive and up to 24 MB RAM. It gives you a full-sized screen, a full-sized, ergonomically sculpted keyboard, and an elegant little wedge of a floppy drive that nestles underneath, out of your way. Heck, it even gives you a lithium ion battery that lasts up to 6 hours. All in a package that's, amazingly, about four pounds and one inch thick. So the only thing it doesn't give you is a backache.

Call 1-800-DIGITAL for information on your nearest reseller.

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[illegible]

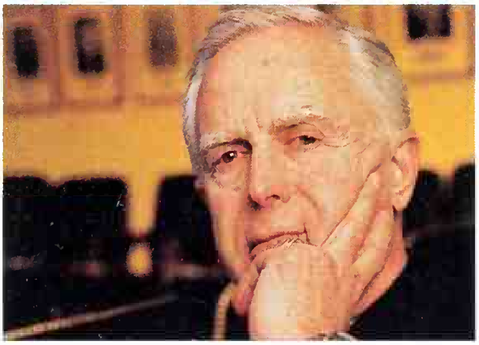
Vashington Outlook

ITED BY OWEN ULLMANN

VILL SHAREHOLDER RIGHTS BE TRAMPLED N THE RUSH TOWARD REFORM?

When he headed the American Stock Exchange, Arthur Levitt Jr. slammed lawyers who filed frivolous shareholder lawsuits to force companies into exorbitant set- nents. Now, as chairman of the Securities & Exchange nmission, Levitt is about to see Congress stem such abus- So why isn't he cheering? The SEC chief frets that an over- lous GOP may weaken investor protections.

Vith securities-lawsuit reform rushing through Congress, vitt is working behind the scenes with lawmakers, legal ex- ts, and business groups to shape legislation that balances reholder rights with company interests. His goal: ensuring bill "won't compromise investor tection and market efficiency."



LEVITT: *He helped temper the Senate bill*

FE HARBOR." That won't be easy— n the SEC is divided. General Coun- Simon M. Lorne and Commissioner ven M. H. Wallman, both ex-corpo- lawyers, advocate aggressive re- n. But agency staffers defend class ons as valuable adjuncts to their cing efforts and say minor tinkering eeded. "The SEC is like a large Ital- family at the dinner table," says iam R. McLucas, the SEC's enforce- it director. "There's a lot of arguing, greement, and debate."

evitt, who favors a middle-of-the-road approach, has jaw- ed the Senate Banking Committee to produce a compro- less radical than the House overhaul, which passed by a ided 325-99 in March. The Senate bill, likely to become eliminates bounty payments that lawyers pay investors agree to sue, and it caps attorneys' fees. It also gives panies "safe harbor" from liability for making business casts that don't come true—so long as they warn that pro- ions are speculative, and they don't engage in fraud.

ligh-tech companies have long sought a safe-harbor provi- because they have volatile stock prices, and they are continually being sued when they miss their growth forecasts. In 9 out of 10 cases, they settle for an average of $8.6 million to avoid even costlier litigation. "We view that as high-tech extortion," says Kenneth Glueck, director of finance policy at the American Electronics Assn.

Levitt's lobbying helped strip from the Senate measure a House requirement that losers pay both sides' legal fees. The SEC chief—backed by consumer groups—complained that a "loser pays" rule would scare off legitimate suits. And the Senate trimmed the House's safe-harbor rule by limiting it to public companies, not brokers and financial institutions.

But corporate interests bested Levitt elsewhere in the compromise bill, sponsored by Banking Committee Chairman Alfonse M. D'Amato (R-N. Y.). The legislation lacks two items the SEC had urged to help investors recover damages: a longer statute of limitations and the option to sue accountants and outsiders who assist in a fraud.

Not surprisingly, shareholders' attorneys are livid over D'Amato's bill. "It makes it all but impossible to hold swindlers accountable for fraud," fumes Jonathan W. Cuneo, general counsel of the National Association of Securities & Commercial Law Attorneys. And the Consumer Federation of America says the reforms essentially give companies a "license to lie" about their prospects, making it next to impossible to file even the strongest cases.

Still, momentum for relief from what Corporate America calls legal shakedowns appears unstoppable. With both parties on board, a bill is likely to arrive on President Clinton's desk by summer. Although it will tilt the balance toward corporations, Clinton may be forced to sign it: Given the current political climate, it's the best he can get.

By Michael Schroeder

CAPITAL WRAPUP

SSIN' GEORGE

ieorge Bush gets no respect from fellow Republicans. The House P voted to extinguish his Points of ght Foundation and narrow his ean Air Act. Curbing the Ameri- ns with Disabilities Act to ease bur- ns on business is next. In the Sen- , Phil Gramm raps Bush with lines e, "I don't want to be the 'Educa- n President,'" and "Don't read my s. Read my record." Bush's top de- ıder? Bill Clinton, who lauds him quitting the National Rifle Assn.

TAX PLAN TOO TAXING

►House Republicans are reviewing their seven-year, $350 billion tax cut to make it easier to balance the budget by 2002. One idea under consideration: Dump a generous depreciation plan for business investment. Another option is to limit the $500 per child tax credit to families earning less than $100,000—instead of $200,000 in the current bill—and phase out the credit after just three years. Those changes would reduce the House bill's cost by more than $100 billion.

CLINTON'S DREAM RIVAL

►The White House is hoping Newt Gingrich catches the Presidential bug during a June 9-12 tour of New Hampshire. Why? Because polls show President Clinton scores better against Gingrich than against other Republicans. Surveys show Clinton's ratings are higher than Gingrich's in every region, even in the Speaker's home state of Georgia. In a New York State poll, Clinton tops Gingrich, 57% to 28%. He leads Senate Majority Leader Bob Dole 44% to 41%.

BARBARA REIS

CHINA

CHINA'S NEW ELITE

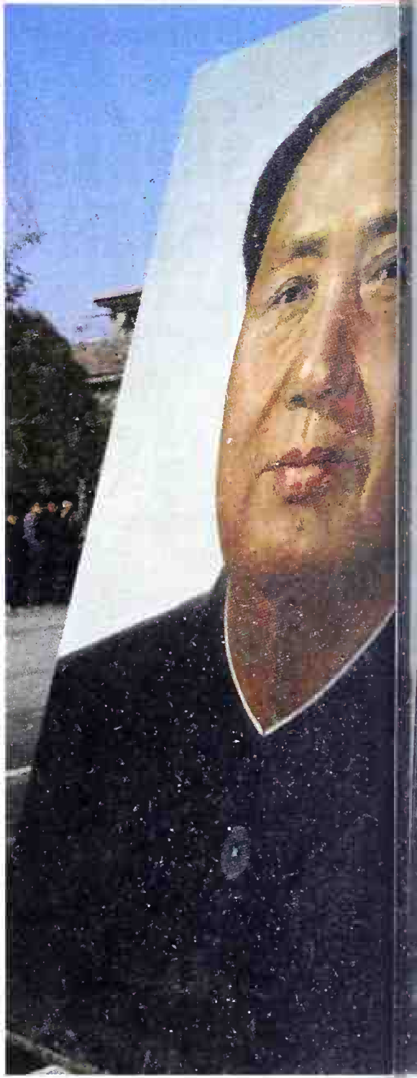
They survived Mao. Now, these superachievers may reshape China

Chen Xiaoyue was 19 years old the day Red Guards came hunting for "class enemies" at Beijing's Qinghua University. It was 1966, the start of the Cultural Revolution, and Chen's father—a professor who had taught at Harvard—was a prime target. Chen's home was ransacked, and his family was scattered to different corners of China. Chen spent 10 years toiling as a farmer and factory worker in remote Shaanxi province.

It was the seminal experience of his life. After working all day, he spent nights poring over old textbooks to teach himself math, physics, and English. In 1977, a year after the Cultural Revolution finally ended, Chen was one of the few people who passed the first competitive university entrance exam held in a decade. Nearly 20 years later, Chen is leading a different revolution at Qinghua: As associate dean of the management school, he is shaping its curriculum to prepare leaders for the market economy. "People of my generation will play a very important role for the next century," Chen says. "We have to establish a new business culture."

A dynamic new elite is coming to the fore in China. Its members stand out from both the older generation raised on communist glories and from younger Chinese exhorted to "get rich." This group came of age during the Cultural Revolution, when millions of teenagers became Mao's fanatic Red Guards. In the reign of terror that followed, millions of Chinese were humiliated, beaten, and murdered. Then, Mao banished 17 million teenagers to the countryside, closing their schools and denying them education beyond communist propaganda. They became known as the "lost generation," a waste of talent that hobbles China to this day.

WARY. A select group has managed to make up for lost time. Call it the Class of '77. Its members were the first students after the Cultural Revolution to gain entry to universities on the basis of competitive exams rather than political connections. Out of 12 million applicants for China's top universities in 1977 and 1978, they were the 5% who earned top scores. Many went on to earn master's degrees and PhDs in the West. Now, the Class of '77—sophisticated and wary of rigid ideology—is making an impact on every aspect of Chinese society, from



business to government to the ar
They are by no means a monolit
group. Highly independent, they h
widely varying opinions on such issu
as political and economic reforms.
most want a China that is more open
the outside world, tolerates greater
bate, is driven by the private sect
and is run by modern institutions a
the rule of law. While a more libe
China is a long-term goal, some s

The Class of '77 Makes Its Mark

Survivors of the Cultural Revolution who entered China's best schools in the late 1970s make up the Class of '77, an elite group that is becoming more powerful as the country enters the post-Deng era

- ▶ Having risen largely on merit rather than family ties, the '77ers represent some of China's brightest minds
- ▶ They have built up extensive personal networks based on friendships during the Cultural Revolution
- ▶ After studying and working overseas, '77ers are more open to Western ideas and less bound by communist ideology than the older generation of leaders
- ▶ They fill key positions in the government, universities, and think tanks, and their help will be vital to whoever wins the power struggle after Deng
- ▶ State-run enterprises and Western multinationals alike rely on '77ers to run many operations in China
- ▶ They want the government to tolerate criticism, boost the private sector, and encourage the rule of law

THE WAY THEY WERE
From '66-'76, millions of teens were denied education beyond propaganda. Many have now caught up

a government run by pragmatic nocrats. Above all, members of the ss of '77 believe they are the most lified to lead China, by virtue of r experience with rural poverty and stern society. With Deng Xiaoping death and doddering Communist y career men fading from the scene, nbers of the Class of '77 are prepar- to take the reins.

hey will be able to tap into a tre- dous network. Alumni are every- re, from the upper management of e-owned companies to the Asian s of multinationals such as Kraft ds International and Goldman, Sachs o. They're pioneers in private enter- e, capital markets, and legal reform. y hold prominent posts in Chinese ersities. Tens of thousands are at levels in China's massive bureau- y. The '77ers "are the most impres- people I've ever met," says China ert Kenneth G. Lieberthal of the versity of Michigan.

be sure, the Class of '77 isn't the only influential group of fortysomethings in China. Far more powerful are the "princelings"—sons and daughters of top Communist officials. Many also did time in the countryside, but they advanced through patronage and nepotism.

They and others among Beijing's leaders view the Class of '77 with some suspicion. The class dominated the economic and political think tanks that influenced policymaking under reformist party boss Zhao Ziyang, purged after Tiananmen. Many Zhao advisers supported the students and subsequently scattered into the private sector or to overseas universities after the massacre.

SELF-RESPECT. As a result, Communist elders may take moves to slow the Class of '77's advancement into sensitive top-level jobs. "The leaders do not trust our generation," says an economist who had been a Zhao adviser. "We have too much self-respect to kowtow to them." This generation, however, will not be easily marginalized. For starters, they're very much in vogue. Recently, novels, TV series, and theme restaurants have been devoted to the experiences of the *laosanjie*, or "old three classes"—those who would have graduated from high school during the first three years of the Cultural Revolution.

More important, the Class of '77 has a pivotal role in the economy. The drive to develop capital markets, monetary policy, and a commercial-banking system largely is the work of '77ers. They hold directorships in the Finance Ministry and State Planning Commission. The China Securities Regulatory Commission has at least five '77ers in top positions, including chief legal counsel Gao Xiqing, a former Duke University professor who worked in a munitions factory in the Cultural Revolution. Gao left a high-paying job at a Wall Street law firm in 1988 to take his present post.

Some of this generation's most gifted members serve as a bridge between Wall Street and China's state sector. Shan Weijian, based in Hong Kong as J. P. Morgan & Co.'s vice-president for China, toiled six years in Inner Mongolia as a farmer, horse rancher, mason, and "barefoot doctor"—a rural physician with no formal medical training. He went on to earn a PhD in the U. S., work at the World Bank, and teach at the University of Pennsylvania's Wharton School before moving to J. P. Morgan.

China's progress in building a modern legal system also depends largely on '77ers. At 40, Wang Yun is a judge in the Supreme Court's commercial division, where she handles cases on contracts, bankruptcy, and banking. Wang entered college in 1979, after working in a dyeing plant for seven years. Her seniors had only orthodox communist training in school, but Wang and her classmates studied works by such Western theorists as Locke, Montesquieu, and Rousseau. "My generation learned more in law school," says Wang, who is a visiting scholar at Columbia University.

Since this group suffered so much during the Cultural Revolution, it is determined to build a sound legal system. "The Cultural Revolution was lawless," recalls Wang Xinan, director of the legal department in the Ministry of Machine-Building Industry, who spent six years on a farm and at factories in Gansu province. "My generation paid a high price, and we don't want later generations to have to as well." Wang is helping state enterprises develop legal skills so they can appeal to the courts rather than the ministry to solve problems.

The Class of '77 will have its mo
lasting imprint on education. Ch
Zhangliang, who heads the biology d
partment at Beijing University, says h
brethren occupy top academic posts. "
you look at every institute and universi
you will see over half are from this ge
eration," he says. Academics returni
from the U.S. are also revitalizing ec
nomics courses. "We must totally chan
the system," says Hai Wen, one of fi
U.S.-trained economists from the Class
'77 who started Beijing University's C
na Center for Economic Research.

The Class of '77 is well-represented
the business world, running proper
marketing, and financial companies.
Xiaohua, who spent six years as a hor
cart driver in Heilongjiang province, c
ated Beijing-based property-and-indu
trial concern Huada Investment Grou
The founders of Beijing property gro
Vantone Industry Corp. and compu
pioneer Stone Group are also '77ers.

BUSTED TRUST. This generation of exe
may become a factor in politics. Ma
remain bitter about the Cultural Rev
lution. An official at a Guangdong ho
company says he has "never trusted t
Party" since 1967, when as a Re
Guard, he was branded a rightist a
beaten after a different faction in B
jing took over the movement. Somed
"we will fight for our political rights,"
says. "This will transform China."

That time hasn't come yet. As lead
jostle for power in the post-Deng e
political reform is in the deep free
and the pace of economic reform h
slowed. Many '77ers regard Preside
Jiang Zemin and Premier Li Peng
temporary leaders at best. Next in li
are party veterans in their 50s, educ
ed before the Cultural Revolution. Th
occupy most ministerial posts, provinc
governorships, and the top jobs at C
na's biggest state-owned companies. B
with age limits being enforced in mo
government jobs—a key reform und
Deng—most of this group will
pushed into retirement within a deca

That opens the way for the Class
'77. Having suffered through Maoist
naticism, '77ers harbor no illusions abo
sudden transformations of Chinese so
ety. If nothing else, the Cultural Revo
tion "taught that in China, politi
changes are dangerous, unstable, a
unpredictable," says Ding Xueliang
'77er who is now a political science p
fessor at Hong Kong University of S
ence & Technology.

That hasn't stopped some of th
from pressing for political refor
though. Members of the '77 generat
played a leading role in recent mon

LU MING ★ DEALMAKER

A NETWORK FORGED FROM PAIN

RON McMILLAN/ECHO ASIAN FEATURES/GAMMA LIAISON

As he travels across China, Lu Ming, Greater China development director for Kraft Foods International, often meets fellow members of the Class of '77. To break the ice, he finds out where they were during the Cultural Revolution. "Even if I didn't know him," says Lu, "if he has a similar background, we can quickly establish a rapport."

Like so many others of his generation, Lu, 37, endured tremendous hardship in the Cultural Revolution. His father, a philosophy professor, was sent to a labor camp and killed. With his mother and sister, the young Lu left home in the central city of Wuhan and went to work in the countryside. He toiled 16-hour days in the fields yet still found time to study at night. In 1977, Lu passed the new university exams and entered an engineering institute in Wuhan. After his graduation in 1982, the government sent him to Leuven University in Belgium to get a master's degree in business.

He returned to state-owned China International Trust & Investment Corp. (CITIC), managing its extensive investments in resources and building materials in 1985. He then ran CITIC's $100 million steel mill in Claymont, Del. That's where Kraft discovered him in 1993. Now, as the company's Hong Kong-based business-development manager, Lu negotiates joint ventures in China, where Kraft already produces powdered drinks, dairy products, and instant coffee.

Through alumni of the Class of '77, Lu has gained insights into key political and business figures. "My generation has reached a very high level in many companies," he says. "I know their motivation very well." In a country where connections are all-important, the Class of '77 is fast becoming the ultimate network.

SHEN YUANYUAN ★ LAW PROFESSOR

TEACHING AS A TWO-WAY STREET

It was a far cry from the typical Chinese classroom. Shen Yuanyuan, 38, a Harvard University Law School graduate and former student and professor at People's University in Beijing, tried out her new American teaching style at her Chinese alma mater when she returned there in 1993 to ecture on international aw.

Shen asked her students to conduct negotiations, write contracts, and answer her questions. That surprised many of them. Why? In Chinese universities, "usually the teacher gives you the whole system, one-two-three-four," says Shen.

Exposing students to the American approach is Shen's way of repaying her debt to People's University. Shen maintains close ties with her old school, which sent her to Harvard in 1988. Three days before her graduation, troops rolled into Tiananmen Square. Shen quickly arranged to stay in the U.S., entering graduate school at the University of Wisconsin.

Now working on her PhD on the sociology of law, she lives in Cambridge, Mass., with her husband, a Harvard law professor, and two children. But she tries to go back to Beijing every year. "I feel I have some moral obligation to give them what I have learned in the U.S.," she says.

Like many members of the Class of '77 who have studied in the West, Shen has developed ideas about personal freedom that might displease some Party elders. "Individualism isn't perfect," she says. "However, for China at this stage, it's quite useful." With that in mind, Shen is writing her dissertation on consumer protection in China. As fraud explodes in the market economy, a grassroots consumer movement is stirring. From both sides of the Pacific, she hopes to chronicle its growth.

Chinese intellectuals sent petitions the government calling for change. If s group is viewed as too threaten- , it could be bypassed for top posi- ns in the future. "They are hot pota- s," says Robin Munro, Hong Kong ector of Human Rights Watch/Asia.

But there's no guarantee that young- generations will be any more sub- sive. Educated Chinese in their 20s early 30s take the Communist Par- even less seriously. "They sneer at everything," says Stanley Rosen, a political science professor at the University of Southern California. Because the '77ers possess the skills needed to run bureaucratic machinery and formulate policy, whatever faction is in control will need to rely on this generation. Any leader "will have to solve society's problems," says a '77er who was a Zhao adviser. "He will need us to do that."

As the older bosses viciously struggle for power in Deng's wake, expect the Class of '77 therefore to wait its turn. Meanwhile, it will likely try to change the system quietly from within, gradually strengthening the institutions required for a civil society. If China can get through another decade without major upheaval, it could start to resemble the modern economic power so many await—thanks in large part to the Class of 1977.

By Pete Engardio in Beijing, with Dexter Roberts in Hong Kong and Bruce Einhorn in New York

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WENG XIANDING ★ ENTREPRENEUR

FROM TECHNOCRAT TO TYCOON

For young technocrats such as Weng Xianding, China's complicated politics after June, 1989, rompted worries about whether gov- rnment work was for them. Doubting he could make a major impact as Beijing bureaucrat, Weng—a rising ar at the State Planning Commis- on—joined the exodus of govern- ent officials into business.

Now, he runs an ambitious $120 illion investment company in fast- aced Shenzhen, the economic zone ear Hong Kong. Among the projects his China New Industries Invest- ent Co.: a futures-and-commodities ading firm, a clinic to treat near- ghtedness with lasers, a raft of high-tech startups, a major office complex, and a sports club with racquetball courts and bowling lanes.

Weng relied on his Class of '77 contacts to build the group. After working at a brick factory in Henan province, Weng scored so well on the 1978 university entrance exam that he was admitted into the master's program at the Chinese Academy of Social Sciences, then a hotbed of reformist economic theory. There, he met students who would later attain government positions. After getting a master's degree in banking and finance in Milan, Italy, Weng set up New China Industries. Its 17 shareholders include provincial governments from around China and his old employer, the State Planning Commission.

Over time, Weng believes the business sector will become a major catalyst for change in Chinese society. By turning New China Industries Investment into a major financial-services company, he plans to play a big part.

(TOP TO BOTTOM) PHOTOGRAPHS BY MILLICENT HARVEY, RON McMILLAN/ECHO ASIAN FEATURES/GAMMA LIAISON

JAPAN

THE JAPANESE HAVE A NEW THIRST FOR IMPORTS

But the surge won't do much to trim the surplus with the U.S.

Cruising through the opulent, marbled Tokyo branch of Barneys New York, Keiko Saijo exults in the bargains. She has just picked out an imported dress shirt that's going for 16,000 yen ($184), down 25% from the last time she looked. "The prices are really coming down, and the choice of products is getting much better," says the twenty-something office temp. She bubbles on about how cosmetics from Chanel and Christian Dior are getting cheaper, too.

Saijo, along with most Japanese consumers, is taking advantage of the high yen, or *endaka*. The currency's rise—about 20% over the past year—means many imports are getting cheaper, encouraging Japanese to buy more of them than ever. And as Japan's exports are increasingly expensive and hard to sell, the country's stubbornly high trade surplus with the rest of the world is declining for the first time in years.

Few non-Japanese have noticed this decline, however, because Japan's surplus, expressed in dollars, has barely budged. In April, it was down by 2% from a year earlier. But in yen terms, the surplus declined by 20%. The volume of imports also surged by 18%. "There clearly has been an underlying structural change," says Geoffrey Barker, head of research at Smith New Court Securities (Japan) Ltd.

Problem is, these positive signs don't spell relief for U.S.-Japan tensions. U.S. exports to Japan grew at about 16% in the first quarter, but Japan's exports are much larger and grew at about 10% for the same period, according to the U.S. Commerce Dept. That means the $66 billion U.S. trade deficit with Japan may barely budge this year. "A small acceleration of imports to Japan isn't going to do the trick," says Larry Chimerine of the Washington-based Economic Strategy Institute. "You gotta have big changes to reduce the deficit."

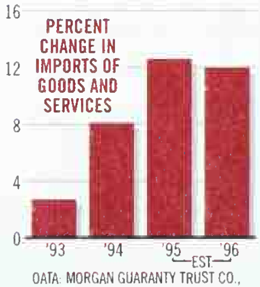
KODAK'S COMPLAINT: *It says "anti-competitive practices" hurt sales*

Reflecting its continuing frustrati
Washington looks ready to impose 10
tariffs on Japanese luxury cars in Ju
in retaliation for Japan's refusal to f
ther open its car and car-parts marke
Eastman Kodak Co. on May 18 pe
tioned Washington to investigate a
remedy "decades of anticompetiti
trade practices in the Japanese mark
for photographic film and paper. A
U.S. negotiators are threatening sa
tions in an aviation dispute as well.
ASIAN FACTOR. One reason trade t
sions have not eased: Of the increas
U.S. exports to Japan, a high perce
age are "reverse exports"—produ
made by Japanese companies in t
U.S. and shipped to affiliates ba
home. Toyota Motor Corp. says its p
chase of U.S. auto parts for assembly
Japan increased from $1.1 billion in 1
to $1.5 billion in 1994 but won't discl
what percentage came from affiliat
Moreover, many U.S. exports to Ja
are still handled by Mitsui Co., Mitsu-
shi Corp., and other large trading c
panies. The Japanese "are going to h
to source more from abroad, but fr
whom?" says Mark Mason, a Japan
pert at Yale University's School of
ganization & Management. "Increasi
ly it seems it will be from their o
operations that have moved abroad.'

Then there's the Asian factor.
flecting Japan's deepening ties with
neighbors, exports from 12 Asian
tions to Japan are growing more t
twice as fast as U.S. exports, accord
to DRI/McGraw-Hill. The Asians also
reaping bigger gains in selling ma-
factured goods.

That's why the Americans are pu-
ing to sell more sophisticated produ
Rather than exporting raw lumber,
example, the emphasis is on housi
Last year, sales of foreign "kit" and
fab houses in Japan doubled to 3,

JAPAN STEPS UP ITS FOREIGN BUYING...



DATA: MORGAN GUARANTY TRUST CO., DEUTSCHE BANK RESEARCH

...AND ITS NEIGHBORS STAND TO GAIN THE MOST

- Japan's exports to the U.S. also continue to grow, making it unlikely the $66 billion surplus will decline significantly
- Asian countries are getting a bigger rate of increase of sales in Japan than the U.S.
- Many of Japan's imports from the U.S. are from affiliated subsidiaries, not American-owned exporters

PHOTOGRAPH BY TOM WAGNER/SABA. CHART BY ALAN BASDEN

Stress can cause increased blood pressure, tensed muscles and sharply accelerated breathing rates.

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and should reach 5,000 this year, worth roughly $60 million. Half of those will come from the U.S.

Overall, demand for imports has surged most noticeably for chemicals, fabricated metals, machinery, apparel, and cars, according to the Japanese government. Through April, sales of imported cars soared by 42%, to 111,744. That's still pretty paltry in a market of more than 6 million cars a year, and almost 27% of the imports were Japanese makes. But there's no doubt that foreign cars eat less dust than they used to.

PC DIVIDEND. Also catching on with the Japanese are American personal computers. Their market share has grown during the past year by about 10 percentage points and now stands at 35% to 40%, says Frank Sanda, president of Apple Japan Inc.: "The demand is overwhelming. We're growing at 30% year on year and now have better than a 20% market share, which is double what we have in the U.S." But unfortunately for the U.S. trade deficit, Apple's computers are assembled in Singapore.

PCs aside, much of Japan's appetite is for less sophisticated goods such as imported beer, food, and compact disks. Foreign beer tripled in market share last year, to 6%. Selling at $2.30 or less per 8-ounce can, imports have forced the price of Japanese brews down to $3.05 from $3.33.

Despite bad weather, food stores have managed to hold vegetable prices and profits steady by turning aggressively to imports made cheaper by the currency shift. Vegetable imports, for example, are growing rapidly.

While fixing dinner, Japanese can listen to cheaper CDs, thanks to *endaka*-linked price-chopping by Tower Records Inc., the U.S.-based chain that operates 23 stores in Japan. On Apr. 8, Tower slashed its prices by more than 10% for chart-topping CD imports. "Our customers are very happy," says Marketing Manager Shinichi Fujisaki. The result: Tower's CD sales volume has leapt by 15%, he says.

Ever since the Plaza Accord of 1985, which brought a dramatic surge in the yen, Washington has counted on *endaka* to help reduce Japan's global trade surpluses and ease access to its markets. Until recently, that expectation has been unfulfilled. Now, evidence suggests the yen may have finally climbed high enough to make a difference. The bitter irony is that it may be too little, too late to head off trade brinksmanship across the Pacific.

By Robert Neff, with Brian Bremner and Edith Updike, in Tokyo

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FRANCE

LIBERTE, EGALITE, FRUGALITE: FRANCE'S NEW FINANCE CHIEF

In a moderate Cabinet, Alain Madelin is a maverick

As ideas pour from his hyperactive brain, Alain Madelin sounds like an intellectual godchild of Margaret Thatcher or Ronald Reagan. He hates big government, worships free markets, and thinks taxes should be cut to the bone. So how—*nom de Dieu*—did Madelin become economic czar of France, that stronghold of protectionism?

In a reassuringly moderate Cabinet, named on May 18 by newly elected President Jacques Chirac, Madelin, 49, is the maverick. His post as Finance & Economy Minister is traditionally France's most powerful after the Prime Minister, Alain Juppé. Given Madelin's combative personality, many think he may work even bigger changes on a rigid economic system than Juppé. "Madelin represents innovation," says Christopher Potts, chief economist at Chevreux De Virieu, a Paris brokerage house.

Y. FORESTIER/SYGMA

TOUGH Madelin faces a public that's not ready for Thatcherism. He may well clash with Premier Juppé

As Industry Minister in 1986-88, Madelin trimmed his own budget without being asked and even floated the idea of abolishing his ministry. He also slashed aid to ailing companies, letting a shipyard close rather than prop it up with tax funds. "Protectionism," Madelin argues, "dissuades companies from improving their products" and "produc rising unemployment."

For France, that's revolutionary ta and Madelin faces a fight with a pub that's not ready for Thatcherism. Ma think he'll also clash with Juppé, a co sensus politician. Labor unions are ready challenging his first planned p vatization—of steelmaker Usinor Saci It will be far tougher to sell off pub services such as France Telecom. Ma Chirac backers also think the Preside should loosen the franc's rigid link the German mark, to cut interest ra and create jobs. That w Madelin's view two years a Now, he defends *le franc fort*, guing France's economic func mentals are strong enough to s port the policy.

MINIMUM WAGER. Son of a Co munist auto worker, Madelin w drawn toward the opposite car As a young man, he founded far-right Occident group a fought leftists in the streets d ing France's 1968 student rev He turned more moderate in 1970s. A lawyer by trainin Madelin loves to quote two gur free-market economists Milt Friedman and Friedrich A. v Hayek.

Yet Friedman wouldn't like of Madelin's ideas. Claiming sy pathy with the working cl because of his humble origi Madelin backs the monthly sub dies of $400 per worker that C rac plans to pay companies that h the hard-core unemployed. He applau a major hike in the minimum wa announced by Juppé on May 23, wh many economists think will hamper creation.

Juppé's speech quickly hurt the fra with traders wondering how the g ernment will pay for these initiati The next day, Madelin assured reports that Chirac would cut the deficit a support the currency, without offer any details. Madelin can only dispel uncertainty about the government's p gram by proving he has the courage his frugal, free-market convictions.

By Stewart Toy in P

Revolutionizing an industry happens once in a lifetime. Okay, maybe twice.

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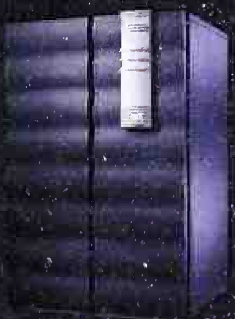

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CRAY RESEARCH, INC.

nternational Outlook

ITED BY STANLEY REED

VHY PUMPING UP NATO IAY BLOW UP IN CLINTON'S FACE

Vith Republicans on his back, President Clinton is contemplating embarking on a collision course with Russian President Boris Yeltsin over the future of Europe- security. The White House wants a rapid expansion of the ro alliance to cover emerging democracies in Central Eu- e—such as Poland and Hungary—while excluding Russia. Administration's stance echoes the GOP Contract With ierica's call for enlarging NATO. Both parties are also keen winning ethnic voters for the 1996 Presidential election.

But bowing to domestic politics on the crucial issue of ropean security could further erode Clinton's already bad- lamaged credibility overseas. On his ent trip to Russia, Clinton hardly le a peep about Moscow's crushing Chechnya. A move to expand NATO lefiance of Yeltsin, whom Clinton coddled throughout his Adminis- ion, would probably look like yet ther Clinton waffle.

PER RIFT? Such a step would also ercut Yeltsin and signal Moscow the West intends to isolate it. That could strengthen the hand of pow- l reactionary forces just as Russia ls toward elections for President for the State Duma, or parliament. anding NATO "is an affront to Russian feelings," declares rey N. Mitrafonov, deputy chairman of the Duma's foreign rs panel and a member of the ultraconservative Liberal nocratic Party.

Vhat's more, Clinton's campaign could deepen the rift ng European nations over the speed and scope of plans to den the security umbrella. Germany—which shares bor- with the Central Europeans—wants to move at full Britain isn't eager to make new military commitments, the new government of Gaullist President Jacques Chirac oppose the Clinton initiative in a typically French move to blunt U. S. influence in Europe. "The debate could lead to NATO's demise, not its revitalization," frets Charles A. Kupchan, a senior fellow at the Council on Foreign Relations.

But for now, the U. S. is pressing ahead with plans to rewrite NATO's eligibility requirements this summer so as to widen the alliance. The effort is meant to promote European integration and assuage the historical insecurity of Central Europe. But many wonder where the billions of dollars it would cost to bring the Polish and Czech militaries up to NATO standards would come from.

PARADING TROOPS: *Russia feels threatened*

There seems little need to rush into a poorly thought-out policy now. With a budget 70% below its 1988 peak, the Russian military is hollow. Manpower is way down, and fighter pilots fly just 40 hours a year, compared with 225 hours in the West. "Russia won't be able to threaten Europe for a long time," says Sherman W. Garnett, a former Pentagon Russia specialist.

NO BRAKES. Although the short-term military threat may no longer exist, Russia will remain a dominant presence in the region. But it would make a lot more sense to work on integrating the Eastern economies with the West than have them spend heavily on rearming.

The White House, doesn't want to back off and make it look as if Moscow autocrats control U. S. policy. "They don't have their foot on the brakes," sniffs one U. S. official. They shouldn't. But that doesn't mean Clinton should plow ahead. He hasn't come up with a fresh new vision of European security now the cold war is over. Instead, he's letting a game of one-upmanship with the GOP push him into what could turn out to be an expensive and risky European initiative.

By Stan Crock in Washington, with Peter Galuszka in Moscow

GLOBAL WRAPUP

IWAN'S NEW CLOUT

'he U. S. decision to allow Taiwan esident Lee Teng-hui to visit his ia mater reflects how much U. S. itudes have changed toward Tai- n and China. In recent years, Tai- n has embraced democracy and it a powerhouse economy, making darling of the U. S. Congress. ina continues to arrest dissidents, ping alive its negative image. Beijing views the issue as a matter overeignty and considers the U. S. be reneging on past diplomatic agreements in which the U. S. recognized Beijing as the legitimate Chinese government. How far China will go in punishing the U. S. remains to be seen. Some believe Beijing has little leverage. "What can they do, stop selling us one-third of their exports?" quips one U. S. official. But it would be silly to underestimate Beijing's ability to make trouble.

AN INDEPENDENT BERMUDA?

▶ Over nearly four centuries of benign British rule, tiny Bermuda has turned into the thriving home of $14 billion in mutual-fund assets and of insurers with $29 billion in capital. Now, this financial mecca may be facing a change in governance.

On Aug. 15, the British colony plans to vote on Premier John W. Swan's long-sought goal: independence. Bermuda's commercial Establishment, fearful that a shift in the colony's status might scare business away, is trying to reassure investors that independence would not end its laissez-faire ways. Polls show that voters are strongly against independence.

BILL SWERSEY/GAMMA-LIAISON

STRATEGIES

TESTING NUCOR'S METTLE

The steel mill that's often imitated shows signs of strain

TERRY PARKE

Bill Clinton first knocked on the doors of Nucor Corp. in the mid-1980s, when, as governor, he wanted to lure a steel mill to Arkansas. Clinton befriended Nucor executives and last April even invited President John D. Correnti to the White House. After a state dinner, the two men talked shop until 2 a.m. "He wanted to know why the government couldn't run like Nucor," Correnti recalls.

Clinton is hardly Nucor's only fan. For two decades, the Charlotte (N.C.) minimill king has stormed through the American steel market, earning a growing stream of profits and delighting its stockholders—all while burly competitors such as U.S. Steel, Bethlehem, and LTV shuttered mills and lost billions. With its skeletal headquarters staff of 23 and a nonunion workforce tied into profit-sharing, Nucor has become the very model of a lean, low-cost company. "We benchmark against Nucor," says LTV Corp. Chairman David H. Hoag.

Now the company everybody loves to follow is stumbling. After 20 years of breathless growth, Nucor faces difficult challenges. A crucial new Trinidadian iron carbide plant has been plagued by breakdowns and delays. "It's a problem a month," admits Correnti, heir-apparent to legendary 69-year-old chairman and CEO, F. Kenneth Iverson. At the same time, a passel of new minimills challenging Nucor's dominant position is coming on stream. And at Nucor's key Crawfordsville (Ind.) plant, an exodus of managers has unsettled operations.

WALL STREET JITTERS. Boil it all down, and some industry observers see signs that the company's explosive growth may finally be stretching Nucor's lean management too far. Although revenues have more than quadrupled since 1986, to $3 billion, Nucor hasn't significantly increased its headquarters staff. Yet the company is now pursuing growth projects aimed at making it the biggest American steelmaker within five years, up from fourth place. At the same time, it is navigating its first executive transition since 1965 as Iverson, recovering from heart surgery, prepares to hand over the reins. The question now, sa one former Nucor executive, "is whet er Correnti can keep running it as t same tight-knit company."

The result: Wall Street no longer l lieves Nucor merits top dollar. The st sold for more than 50 times earnin two years ago—the highest multiple the industry. With trouble now on s eral fronts, Nucor's stock looks decide average. Shares have fallen 27%, around 51, since September, and to the stock trades for just 17 times ea ings. "Their premium has been high," says Howard F. Ward, mana of the Gabelli Growth Fund, which cently sold its Nucor stake.

Certainly, Nucor is in no danger going into a tailspin. Thanks to pla expansions and a 25% hike in flat-rol steel prices, the company's sales re 32% in 1994, while earnings jump 83%, to $227 million. Analysts exp earnings to rise an additional 39%, $350 million, this year. But to keep t company growing at 15% to 20% year—Iverson's goal—he is diversif into new products and markets. A that's what's giving investors the ters. Although cyclical worries are h ing all steel stocks, Nucor has be among the hardest hit.

Part of the problem stems from N cor's success: The e with which the lo cost producer has co to dominate mark for commodity-gra steel coils has spawn new competitors. While ceding the me exacting auto and appliance markets big integrated steelmakers, Nucor l prospered, selling "plain vanilla" st to manufacturers of auto parts and to

STRATEGY: *Iverson will move into new markets to keep rivals at bay*

Now newcomers are borrowing N cor's technology and barreling into the markets. A Canadian joint venture, G latin Steel, started up a Nucor clone Kentucky in April, while a team of N cor veterans is nearing completion o similar plant in Indiana. Minneapo based North Star Steel and its Aust lian partner, BHP Steel, are building Michigan, while LTV, with British St and Sumitomo, are scouting the D South for a minimill site. All told, se new plants will flood the U.S. some 14 million tons of new capacit more than a quarter of current prod tion. Much is targeted at Nucor's c market. Gallatin CEO Milan Kosanov claims that with more advanced equ ment and a better educated workfor he'll top Nucor's products. "We'll be t ing [quality] to a higher level," he sa

Nucor executives scoff at the cl

Grand Prix Sedan

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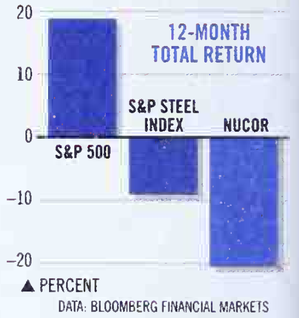
As Nucor runs into problems...

- Nucor's trouble-plagued new iron carbide plant in Trinidad is a year behind schedule and is expected to lose up to $20 million this year
- Slackening demand for its low-grade sheet steel has forced Nucor to slash prices
- New competitors are adding huge capacity in commodity steel markets, raising fears that it faces a price war
- A management exodus at a key Nucor plant has disrupted operations and raised questions about quality
- Explosive growth has stretched Nucor's lean management team, even as Chairman F. Kenneth Iverson's recent health problems and eventual retirement are leading to concerns about management depth

...its stock slides



DATA: BLOOMBERG FINANCIAL MARKETS

lenge. "There's a question of how good the new mills are going to be," says Iverson. "You get a bunch of green guys together, you're going to have startup problems." Rather than hurting Nucor, he argues that the new American mills will primarily supplant high-cost U.S. steel and imports, which topped 30 million tons last year. He also says that Nucor will begin selling to new customers, such as the BMW auto plant in South Carolina and Mercedes-Benz in Alabama. Meanwhile, he expects the company's exports, particularly to Southern Europe and Asia, to increase.

Nucor is also intent on proving that it can generate a substitute for its raw material: scrap steel. Prices for scrap have already shot up 70% in two years, and when all the new minimills open their doors by 1997, rising scrap demand will likely drive up prices further.

CARIBBEAN CONNECTION. To stay a step ahead of the competition, Iverson and Correnti last year earmarked $65 million for an experimental industrial process. At a new plant built in Trinidad, West Indies, Nucor would "cook" Brazilian iron particles with Trinidadian natural gas. The result was to be a steady stream of iron carbide able to replace scrap. Nucor would then load the mineral onto ships and deliver it to barges in New Orleans for around $100 per ton, far less than the current $150 per ton for high-grade scrap.

There was one problem: No one had ever made iron carbide before on an industrial scale. With only limited testing—an approach that had worked for Nucor in the past—Iverson went ahead with a full-scale plant. "This is a $65 million lab experiment," he said as it was going up. Now the Trinidad plant has become a $95 million problem—and counting. Chastened Nucor executives admit that the road has been rockier than expected. Though the crucial chemical conversion in Trinidad is working—"like a jewel," Iverson claims—the plant has been plagued with difficulties. "They tried to [build it] too fast, and without as much engineering as they needed," says J. Clarence Morrison of Prudential Securities Inc.

For starters, Nucor engineers envisioned the iron running down chutes, much like grain. But the corrosive metal promptly opened up gaping holes in the piping. While that has been fixed, the plant has encountered a slew of other mechanical problems since. "It's costing an awful lot," admits Iverson. The Trinidad plant is nearly a year behind schedule, and Iverson concedes that it will lose $15 million to $20 million this year. However, he says, the problems will be resolved by yearend, and he's going ahead with plans to expand. "People say 'Hire a consultant,'" says a frustrated Correnti. "I say, 'Find me one.' No one's ever done this before!"

Trouble is also afoot at the company's key Crawfordsville (Ind.) plant, which produces more than 25% of Nucor's 7 million tons of steel annually. In 1993, after Keith E. Busse, the highly touted manager of the mill, lost the succession battle to Correnti, he quit Nucor and set up a new company, Steel Dynamics Inc. in Butler, Ind.

To make matters worse, Busse took several key managers with him. When Nucor named Larry Roos as his successor, many workers reacted angrily to the new boss's more authoritarian style. Some invited the United Steelworkers of America to organize the plant. But Roos put out that fire last year by meeting individually with ea employee. "Crawfordsville was very n vous for a while," says Iverson. "R it's settled down now."

TALENT DRAIN. Former managers d agree, however. They say the exo from Crawfordsville has continued—a over the past year, some 20 top man ers and technicians have left. The r son: unhappiness with tighter oversi by Roos, combined with lucrative o portunities at the new startups. " wasn't a friendly place to work; y couldn't have had a more stark chang grouses one former high-ranking man er. Roos dismisses the complaints. "Th weren't used to seeing the general m ager in the plant," he says. "Their ty cal reaction was that I was spying."

Many of those who left now fill t management ranks of Nucor's new vals. The turnover has taken a toll, co ing as Crawfordsville has doubled pacity—and as the steel market h begun to soften. Overproduction h forced Nucor to cut prices, and qu tions have been raised about quali Sources close to the company say th in April the plant made $6 million operating profits, well below its $11 lion target.

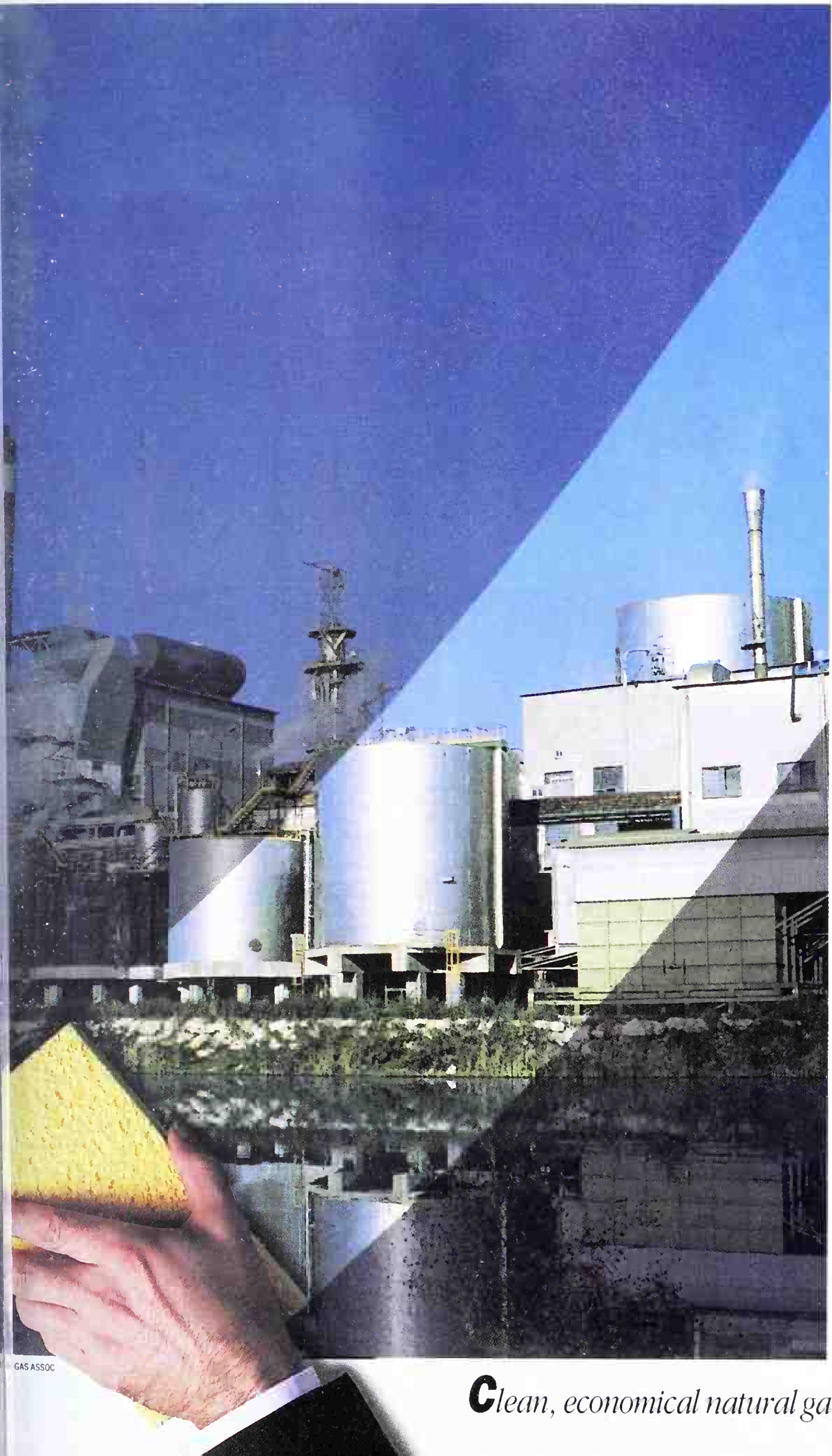
Still, few are counting the indus innovator out. Iverson, who will be 7 September, says he's fully recover from heart surgery. He played th sets of tennis one recent Sunday a is expected to turn the CEO's title o to Correnti within the next two yea Both dismiss arguments that Nu lacks managerial depth. "We can wea er the storm because we have a stro er ship," says Correnti. The question whether shareholders will again pay for a high-powered speedboat.

By Stephen Baker in Charlotte, N

The Trinidad plant was a "$65 million lab experiment" that has turned into a $95 million problem—and countin

ALAN BASDEN

Don't you wish we could just do this to acid rain.



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Net Revenue by Product

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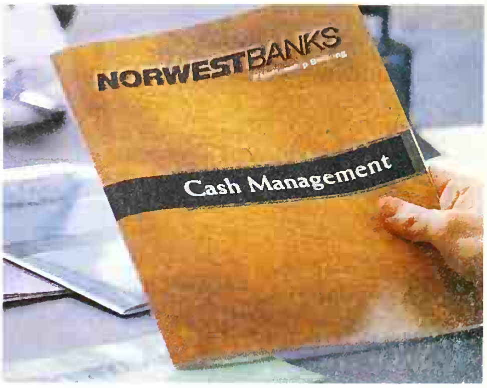

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Cover Story

ONLINE INVESTING

At your fingertips is a powerful new financial tool

Today, as I do so often nowadays, I began my day in Zagreb. I know it well. I can practically hear the balalaikas—or whatever they play in Zagreb—strumming. I can almost see the rain clouds beyond the horizon (on the infrared European weather map). Now is the time to get indoors and stop by the Zagreb Stock Exchange.

It is not busy at “http://ksaver208.zse.com.hr/”.

It is 7:21 p.m., Zagreb time, and I am only the 94th visitor today. Yesterday, 332 people stopped by. So far this year I am the 1,078th person to arrive from a U.S. commercial organization. There have been 15 from the U.S. military, one from Brazil, 198 from Germany, and so on—I have the list in front of me, all 35 pages of it, broken down by country, hour, company of origin, and lots of other things I don't understand.

It is a gala day at the ZSE! War has not impeded the never-ending quest for investment capital, it would seem. The words appear before me: “The biggest Croatian pharmaceutical company is going to be privatized.” Details, copious details, are available. Had I been one of the 107 visitors to drop by on Feb. 27, I'd have been among the first to learn about another unique investment opportunity: a chance to buy a Croatian municipal bond. It is issued by Istrian County, a leading Croatian tourist spot, for what is delicately referred to as an “environmental projec

A world where facts rule, the small investor holds sway, and the Street is not a factor

Like most emerging markets, Zagreb is an exciting, if r always hospitable, place for investors. For hospitality—a an unrivaled breadth of information—I need only tap ir the great global dialogue that is going on 24 hours a d This mammoth, never-ending idea exchange does not ways tell me what I want to know. But if it doesn't, al have to do is ask.

NITTY-GRITTY DETAILS. Such is the reality of my life now days—the virtual reality, if you will. I have just emerg from an extended exploration of the online frontiers of vestment. I have spent weeks there, cruising the electro vastness. I have gotten eyestrain, headach and backaches. I have risked repetitive-stre syndrome and Lord knows what else.

But it was worth it. What I found is a ne unique—and potentially very powerful—sour of investor information and interaction. True, is largely shunned by the established powe on Wall Street. And that is a good thing. T online world is unruly, anarchic—and no rep itory of conventional wisdom. It is a wor where small investors dominate, and whe facts—not the Street's agenda—are paramou

Sources of information online are rich, so startlingly so. And perhaps the greatest sources are the investors themselves. For t first time, small investors have a way of rap

JULIA GORTON

THE PLUSES

A GLOBAL DIALOGUE

The Internet newsgroups and mailing lists, and the commercial discussion groups—such as Prodigy's Money Talk bulletin board—are an unrivaled investment idea exchange.

CORPORATE INFORMATION

Securities & Exchange Commission filings for companies and mutual funds that file electronically are obtainable via the Edgar project at no charge. Corporate information is also available from a variety of other sources, such as World Wide Web sites and the commercial online services.

NUMBERS BY THE TRUCKLOAD

Economic, monetary, and stock data are available from a wide variety of sources, including the Federal Reserve, the University of Michigan web server, and other data providers on the World Wide Web.

A LEVEL PLAYING FIELD

Now small investors as well as institutions can broadcast their views worldwide–through the newsgroups or even their own World Wide Web sites.

THE MINUSES

GARBAGE IN, GARBAGE OUT

Since anyone can access the Usenet newsgroups, that supposed stock wizard may really be a precocious 11-year-old.

STOCK PEDDLERS ARE PROWLING

Stock peddlers prowl the investment-oriented newsgroups and the discussion groups of the commercial online systems, and some brokers are pushing stocks on their own Web home pages.

BEWARE THE QUICK-BUCK SCHEMES

The online world is rife with outright scams—quick-buck offerings aimed at the gullible and even some more subtle operations.

IT SURE AIN'T EASY TO FIND

Searching for investment information can be time-consuming—and therefore expensive—if you're not familiar with the Net. However, index pages on the Internet make it easy to find the more conspicuous and widely used investment pages.

DATA: BUSINESS WEEK

xchanging information—and it's often the kind of nitty-
y details that are prized by the pros. The message
ds of the large commercial services and the message-ex-
ge powerhouse known as the Usenet, with its 30 million
ntial users, can easily outclass the one-sided and often un-
ble output of the Street's analyst-report machine.

be sure, there are vast black holes in cyberspace. I can
r Zagreb's stock bazaar easily and drop by the Chicago
antile Exchange World Wide Web page seconds later.
none of the U.S. stock exchanges has a formal presence
e online world. I can enter trades into the order-execu-
systems of major brokerages (page 78). But I found
Street pros to be as reluctant to venture into the Inter-
as they are to recommend that a stock—heaven for-
–be sold. That anti-Web attitude, which is fast eroding, is
rific advantage for believers in the school of thought,
popular by Peter Lynch, that the best sources of invest-
information are people with personal knowledge of the
anies (page 66).

RICH-QUICK SCHEMES. For small investors, the online
l is more than information. This is the first time in his-
that they can communicate among themselves as easily
eir institutional cousins. Online investment communities,
ing on particular companies, are beginning to take shape.
mbled upon one on Prodigy (page 68).

ke most people who have encountered the Internet for
irst time, I was overwhelmed by the sheer mass of
But after mastering the basics, I found it easy to navigate the World Wide Web, the conglomeration of computer sites linked via the Internet. (A few of the best financial Web pages are listed on page 67.) Among other things, investors for the first time can get full-text copies of corporate filings with the Securities & Exchange Commission, something previously available only to people willing to spend hours at SEC offices—or to pay handsome sums to private document services.

True, there are dangers. I encountered a host of get-rich-quick schemes and questionable capital-raising efforts, operating so openly that one is tempted to wonder: Where are the regulators? An all-too-typical example of the downside of this new world can be found in the story of the online "prospectus" (page 74).

But I found the world of online investing to be reassuringly self-policing. At its best, the information exchange is a civil and informed person-to-person interaction, a "genuine dialogue" of the kind idealized by Martin Buber. Dialogue is a new phenomenon for investors, who are used to being talked at, not with. Shareholders now can even disseminate investment information about companies they own via their own World Wide Web pages. I found one example—rare, at present, but far from the last, now that Prodigy plans to give its customers that capability (page 72). Still, the two-way information flow, I discovered, can also be a double-edged sword, as is demonstrated by the tale of a prominent online investment newsletter (page 68).

Despite all this promise, the online investment world remains sadly underutilized. And one of the major reasons is that old bugaboo—fear and loathing of technology. Investors have not been treated kindly by many of the technological innovations of the past two decades, from computer-driven trading to mortgage-backed derivatives. The online generation gap doesn't help, either. Although some of the most devoted online mavens are retirees, a Luddite aversion to going online is the Achilles' heel of investors who were raised in an era when technological savvy meant the ability to change a typewriter ribbon. But even that is changing. "I have a 14-year-old nephew in Norway who obtains vast amounts of information from the Internet. I felt that if he can use the Net, we as a bank could use it, too," says Henrik Asland, a senior vice-president at Den Norske Bank in New York, who has begun tapping the Net's corporate data pool to research potential clients.

Yes, whether or not a little child shall lead them, the pros are coming. And that's exactly why the time to take the plunge into online investing has arrived. Once the pros arrive, the danger is that cyberspace will simply mirror the conventional wisdom. Today, going online gives investors a distinct edge. In the pages that follow, chronicling my journey, I'll show how a growing number of intrepid souls are pioneering the world of online investing.

The Dialogue

My first exposure to the online world was on America Online. AOL publishes an electronic version of BUSINESS WEEK, and that introduced much of the staff, myself included, to this vast global community. But I could just as easily have chosen any of the other major commercial online services—Prodigy, CompuServe, or the smaller services, not to mention uncounted thousands of private bulletin board systems. All are gateways to the most crucial aspect of the online world for investors—the great, ongoing dialogue.

This is a subject that has gotten a lot of awful press. And it's true that I saw some garbage on the investment message boards—idle chatter, scams, and "flames," or insulting messages. So what? There are still scads of useful information out there, particularly for the individual investor. Much of it is fresh, firsthand—and, unlike analysts' reports, subject to im-
mediate challenge from other users. Because of this ongoi
"peer review," investors are in a good position to get defi
tive answers to any question, from broad investment strat
gy to specific buy-and-sell analysis on individual stocks, mut
al funds, and bonds.

To get involved, I didn't need any fancy software or soupe
up hardware. I didn't even need a color monitor. Even with t
molasses-slow 2,400-baud modem and ancient IBM clone that
have at home, I could access Usenet newsgroups, Internet
mail, and mailing lists. Nor did I have use for any of the zillio
of books on the Internet. All I needed was a phone number
access a commercial service or bulletin board that is linked
the Net and carries a reasonable quantity of newsgroups. T
board provides the Internet address and easy-to-follow
structions on using the newsgroups and E-mail. My AOL
dress is Garywbw@aol.com. I also have a Prodigy addr
(NNEL28A@prodigy.com) and an address at an Intern
provider known as NETCOM On-Line Communication Servi
Inc.: garyrw@ix.netcom.com. But initially, I was only at AO

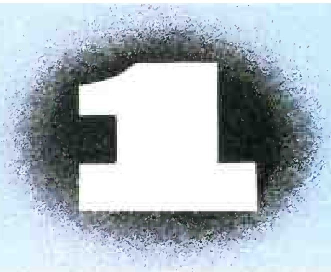
PALAVERING VIA USENET. AOL, like the other commercial s
vices, offers a host of online features of value to investors
various investment message centers, investment softwa
and commercial sites. But the only feature that has no offli
equivalent is the dialogue. Sure, investors can palaver amo
themselves and join investment clubs, but there is no count
part to the breadth of the online discussion groups. I fou
that the most varied and widely populated discussion tak
place in the Usenet newsgroups and in the Internet's
vestment mailing lists. The Usenet is a kind of global messa
center. The messages are "posted" in thousands of "nev
groups" that are electronic versions of the old-fashioned p
board bulletin boards. The mailing lists—there are thousan
of them, too—are similar to the Usenet newsgroups, exce
that the messages are sent by E-mail to each subscrib
The subscribers send messages to one central point, a
they are then sent out to every subscriber to the mailing li

Only a few of the newsgroups and mailing lists specifica
relate to investments. (Some of the "alternative" newsgrou
a kind of vast online gabfest, cover subjects ranging from St
Trek to hard-core porn.) But it's easy to ignore the ju
and aim at the Usenet groups of interest to investors. Th
go by the names "misc.invest," "misc.invest.stocks," "misc.
vest.funds," and similarly named newsgroups for Canadi
stocks, real estate, technical analysis, and futures trading.

Computer and high-tech stocks are particularly popu
subjects, given the large number of techies online. A

JULIA GORTON

Navigating the Online Maze: An Investor's Guide



SCOUT THE TERRITORY

To find worthwhile sources of investment information in the World Wide Web—the galaxy of Internet "home pages"—start with one of the various index pages. Two of the best for investing are the Yahoo indexing service's economy listings and the Global Network Navigator's personal finance entries. A list of new financial web pages, updated every two weeks, is available from the National Center for Supercomputing Applications.

ADJUST YOUR SIGHTS

The Usenet newsgroups are an ideal p
for the next step—brainstorming with
er investors. The best area for exchan
stock ideas is the "misc.invest.stock" n
group. There are similar newsgroups
mutual funds, futures, and Canadian
stocks, and an array of
similar discussion
groups in the online services and
private bulletin
board networks.

ere's a great deal of id, insidey stuff. "I just ne back from the Atari esentation at the ckholm Norra Latin nference rooms," goes e recent posting in sc.invest.stocks. "We t a presentation by ari Europe's marketing ector." The message- ster was disappointed: ey did not have a fin- ed CD game to show." t there were positive ments, which he listed detail.

The messages are orga- ed into "threads"—or ojects—which can be ted alphabetically. It's y to scan them to nb out the get-rich-quick postings and "What is a stock?" eries from newcomers. In fact, the message traffic can be te astute, and because of the huge numbers of academics corporate execs viewing, or "lurking," in the newsgroups, range of expertise can be impressive—particularly for cks with a scientific dimension.

Newsgroup discussions move fast, with messages often ting answers in hours. One recent and typical message ead in the stocks newsgroup began at a 7:48 p.m. Green- h mean time on Apr. 18. A user at Delphi Information tems Inc., a commercial service, posted a query about the eloper of a certain type of laser—the excimer—to correct on problems. He didn't have the name of the company but ed that "the reports I hear about this are miraculous, so could be a hot company to watch for." Over the next five s, seven users provided the names of companies develop- the laser, as well as its regulatory status and the pros and s of the device. One message-poster was even using the mer laser, albeit not for eye surgery. And if I had want- o pursue the subject further, I could have continued my earch in "sci.med.vision" or the other medical newsgroups. se are also a great source of info about new drugs—a big er of pharmaceutical stocks.

he newsgroups don't stint on mainstream stocks. When last I looked, the stocks newsgroup was still the site of a lively discussion on the merits of Wal-Mart Stores Inc. And, as is quite common, there was a good assortment of expertise. One gent commented on the "changes in management technique since the death of Mr. Sam [Walton]," and added: "I work for a major competitor and see them falling closer to our erroneous ways!" His E-mail address was on the posting, so I could contact him for more information—or to verify his credentials.

Meanwhile, there was discussion of a hot initial public offering, Boston Chicken Inc. A lengthy, well-reasoned post from a shareholder presented the positive elements of the stock, and another user argued for shorting the stock. Elsewhere in the newsgroup—among the 6,500 messages available through AOL—I found arguments for and against just about every other stock imaginable. Quite a bit was refreshingly evenhanded—something one almost never gets on the Street. One user, for example, chimed in on a discussion of Toys 'R' Us Inc. with a skeptical but favorable analysis—while another provided a customer's viewpoint.

MYSTERY MESSAGE-POSTER. That's the kind of information I would need if I were considering the stock—and, believe me, much of Usenet is at least as reliable as the analyst reports I see. But the newsgroups—and the discussion forums of the online services—are even better. If I don't see what I want, all I have to do is ask. If I don't get an answer, I ask again, or rephrase my question—an intelligent or challenging question, reflecting some knowledge, is more likely to draw a response than "What's going on at IBM?"

The main hazard of the newsgroups is that you don't always know who's posting the messages. Still, I found it fairly easy to sort out the phonies and four-flushers. Anonymous messages, for example, are of dubious value, at best. You can post messages on the Usenet anonymously via a

Some Worthwhile Web Sites

http://www.yahoo.com/Economy	The Yahoo index of Web sites
http://town.hall.org/edgar/edgar.html	Corporate and mutual-fund SEC filings
http://www.secapl.com/cgi-bin/qs	Stock quotes delayed 15 minutes
http://networth.galt.com/www/home/insider/publicco.html	A list of WWW pages maintained by public companies
http://finweb.bus.utexas.edu/finweb.html	The economics Web page at the University of Texas
http://alpha.acast.nova.edu/listserv.html	A searchable index of Internet E-mail discussion groups
http://www.infoseek.com/Home	Full-text searches of newsgroups and Web pages

DATA: BUSINESS WEEK

AIM

raw data are available via the . You can get full-text corporate n stocks and mutual funds from 's Edgar database, which is e on the World Wide Web. The cial online services provide e data, too, and it's more easily le—for a price.

FIRE!

You can now use an online brokerage, which enables you to send your order directly to the floor of the exchange. The Big Two in the online arena are PC Financial Network, available through Prodigy, and Charles Schwab & Co., available through GEnie or directly from Schwab.

KEEP AN EYE ON THE TARGET!

The most important step of all. The online world, particularly the Usenet newsgroups and commercial discussion forums, are ideally suited to link you up with your fellow shareholders—who can join you in

Finnish-based Internet server, which hides the user I. D. and origin of the messages and sends them out again. One anonymous message I saw late in January, signed "The Shorters Network," dumped on a Canadian company, Fountain House, for its "weak fundamentals." The "network" charitably provided the names of three brokerages where stock could be borrowed to effect a short sale. But anyone who took the advice got badly burned—the stock promptly soared 20%, singeing the shorts, before declining. (My E-mail to the message-poster went unanswered, and I'd wager that the "network" is a one-man band.)

True, there are plenty of stock-hyping posts in the newsgroups—but those messages are usually flamed into submission. If you want to buy the investment equivalent of the Brooklyn Bridge, there's always the Wild West of the newsgroups, "biz. misc," the home of pyramid and other fast-cash schemes. But only the brain-dead would confuse such bilge with the ongoing dialogue that is the heart and soul of the online world.

The Coterie

As I trolled the newsgroups, I looked in vain for evidence that investors were using the Internet as a way of organizing among themselves, as well as obtaining information. But then I received a tip—by phone, not computer—about a curious community that had developed in an unlikely place: Prodigy.

Perhaps it's their mass-market appeal, I don't know, but Prodigy and the other big online services have a reputation among Internet old-timers for being déclassé. Yet Prodigy is where one of the most innovative uses of the online services is taking root. The Prodigy TMMI coterie, as I call it, vividly illustrates the potential of cybercommunications as a vehicle for investors organizing among themselves. The Prodigy TMMIers dwell in the discussion group known as the Prodigy Money Talk Bulletin Board.

I wish I could claim that TMM Inc. is a significant and noteworthy company. In fact, it is a troubled penny stock, a Thousand Oaks (Calif.) multimedia company with a history of litigation too convoluted to recount, including a bankruptcy (from which it has emerged) and the involvement of members of singer Michael Jackson's family. News coverage has been spotty despite the Jackson family link and the disappearance of one of TMM's founders, Philip Taylor Kramer, former member of the rock group Iron Butterfly.

TALKING "TRUTH OR LIES." For most of the past few months, investment pros who punch up TMM's stock symbol, TMMI, on their terminals would just find a handful of press releases. But for Prodigy users, it's another matter. At times, TMMI is one of the hottest topics in Money Talk. The first message "string" I saw was provocative: "TMMI—Truth or Lies." I read on. Another writer declared: "It is buying time . . . you NOW know what the others know, so do your thang!!!" "Obvious hype," yet another responded.

The enthusiastic debate on the Prodigy board seems to be restricted to a few users. But that's deceptive. The potential audience is in the hundreds of thousands. Prodigy estimates that some 50% of its 2 million users access the financial forums and features, which puts investment in a tie with news as the second most popular feature (the biggest draw is sports). One user who conducted a survey of TMMI shareholders via Prodigy and shared his findings on the board said he received more than 400 E-mail responses from TMMI shareholders who were "lurking"—reading but not posting messages. He estimated that Prodigy members own some 10% of the 40 million TMMI shares outstanding. "It's a society—a little cult maybe," notes Lawrence F. Panik, a dentist in Corona, Calif. and an active Prodigy TMMIer.

STEVE LABADESSA

DRILLING FOR DATA
Dentist Panik and hi
fellow TMM investor
are gaining influenc

The TMMI coterie at Prodigy has been aggressive in ferr
ing out information about their obscure company. Led by F
nik, who lives a short drive from TMM's headquarters,
group of Prodigy's TMM shareholders were given a present
tion on Valentine's Day. Such "dog-and-pony shows" a
typical for analysts and institutional investors—but ra
for small shareholders. The visit was organized cannily, to
clude people with different areas of expertise—a lawy
and a computer expert, for example. Only 10 sharehold
came along, because the company was concerned that t
visit might be construed as a shareholder meeting. T
participants reported their findings back to the messa
board.

To me, the issue is not "truth or lies"—whether TMMI is
great company or pond scum. What matters is far broader
that the online world has given these TMMI people clout th
wouldn't ordinarily have. Whether they use it well or poo
is entirely up to them, as it should be.

The Newsletter

The newsgroups and E-m
are the workhorses of t
online world. There is a p
ity about them—raw da
exchanged from user to us
Much the same can be sa
about the Internet's most widely ballyhooed feature, t
World Wide Web. You can get tons of useful data on the W
from SEC filings to stock prices to corporate "home pages

I was unable to access the Web through America Online,
I subscribed to NETCOM, a national Internet provider. A
one of the first Web sites I accessed was the one belonging

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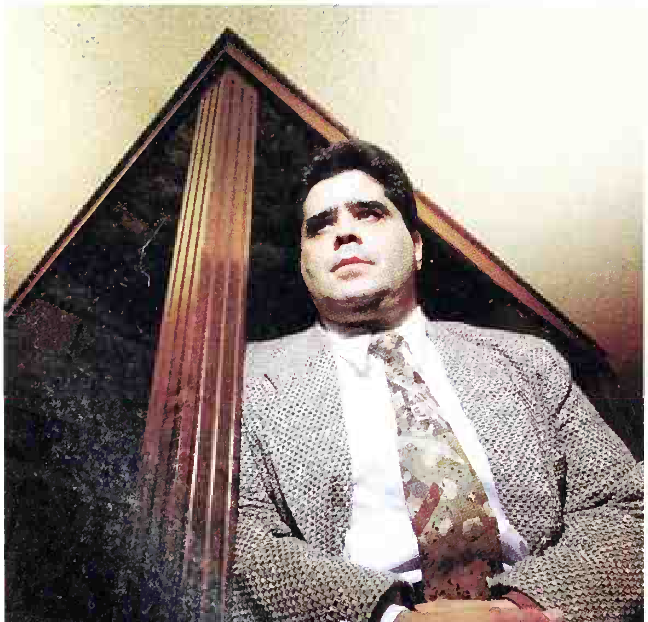
an obscure investment newsletter called *Hot Stocks Review*. Obscure offline, that is. But in the online world, *Hot Stocks* is as shy and retiring as Rush Limbaugh. There are other newsletters on the Web, but *Hot Stocks* and its online siblings—*Hot Stocks Whispers* and *Hot Stocks Confidential*—are probably the most visible sources of stock promotion. *Whispers* is posted in all the investment newsgroups, and each posting contains the *Review*'s Web site address. So when I got my first Web browser, I zoomed straight to *Hot Stocks Review*. I was impressed. It was well-written, interesting, and free as the wind to anyone possessing a Web browser. But was it reliable?

Cover Story

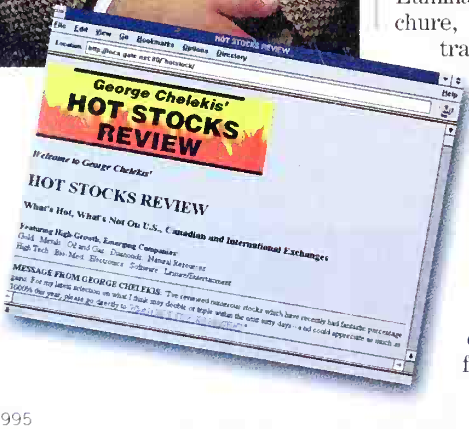
THE DOUGH IS POURING IN. I had several enjoyable phone conversations with George Chelekis, editor of *Hot Stocks*. Chelekis is based in Clearwater, Fla., but he focuses his stock-picking on Canada. In his varied career, the 43-year-old Chelekis has worked as journalist, author, and publicist. "I don't sell. I provide information," says Chelekis, a voluble sort who cheerfully punctuates telephone conversations with four-letter words.

Nevertheless, Chelekis told me that the money is pouring in—from subscribers, who get an extra-fast, E-mailed look at his dispatches for a fee. And above all, the dough is rolling in from the companies he writes about. As duly noted in an online "disclaimer," some companies pay a "research and promotional fee" to be mentioned in *Hot Stocks Review*. Chelekis says the average fee paid by the companies is $10,000. He wouldn't tell me how many of the companies promoted in the *Review* pay for the privilege, or which ones they are, saying they are handled by his "business staff." "I've never counted as to whether it's 60% or 50% or 40% or whatever," he sa But he insisted that the payments have no bearing on his o jectivity. By way of illustration, Chelekis told me that he on was offered $100,000 to rate a stock favorably and says suggested the company engage in an anatomically impossib act of intimacy. He wouldn't identify the company.



PAID TO PITCH?

Hot Stocks editor Chelekis won't reveal how many of the companies promoted in his online review hand over a hefty fee for the privilege



George Chelekis'
HOT STOCKS REVIEW

Welcome to George Chelekis'

HOT STOCKS REVIEW

What's Hot, What's Not On U.S., Canadian and International Exchanges

Featuring High-Growth, Emerging Companies:
Gold Metals Oil and Gas Diamonds Natural Resources
High Tech Bio-Med Electronics Software Leisure/Entertainment

MESSAGE FROM GEORGE CHELEKIS: I've reviewed numerous stocks which have recently had fantastic percentage gains. For my latest selection on what I think may double or triple within the next sixty days... and could appreciate as much as 1000% this year, please go directly to [illegible]

Chelekis aggressively promotes risky Canadian over-th counter issues, including lots of mining outfits. And he c be enthusiastic. Maybe too enthusiastic. Take one of h recent picks, an Ottawa company that makes luminesce materials for signs, Luminart Inc. Chelekis has been so u stinting in his support for Luminart that on Mar. 28, t company took the unusual step of publicly disavowing t Mar. 20 newsletter, saying: "Investors are cautioned agair relying on Chelekis' column as an accurate source of inforn tion concerning the company's affairs." Chelekis says hewed to the straight and narrow in his analysis of Lur nart. He wouldn't tell me, incidentally, if he was paid pitch Luminart in *Hot Stocks*.

I can't understand why so few investment letters have f lowed Chelekis onto the Internet. Although he wouldn't rev the cost of maintaining the Web page, Chelekis conced that the Internet has been a remarkable, and extreme cost-efficient, marketing tool for turning Web surfers ir paying subscribers. No wonder. He has the field almost enti ly to himself—so far.

The Web Site

I wasn't alone in being drawn *Hot Stocks Review*'s multihu Web page. One Net browser w did likewise was a computer c sultant named Stephen H. Dim from Vancouver, B.C. Geor Chelekis' enthusiasm for Luminart was so infectious, mond told me, that he bought 900 shares of the stock at late in January. It was not a propitious decision.

In just a few weeks, the stock lost nearly half its val falling to 5¼ on the Canadian over-the-counter market. Ch ekis blames rapacious short-sellers, whom he says are league with certain members of the Canadian press. But reason for the decline is pretty much irrelevant. What re matters is what Dimond did in reaction.

An obscure company's stock declines for the murkiest reasons. Even for professionals, that can be daunting. Fac with such grim situations, small investors usually have all power and influence of a cockroach on the trading room flo They just get squashed. There's not a thing they can do say about it. Or is there? Dimond felt that Luminart was g ting a bum rap in the investment world, so he set out spread the word. Did he do this through a letter-writ campaign? No way.

RIGGING UP A CYBER-SPOTLIGHT. Dimond's solution: a Wo Wide Web page. As a computer consultant and engineer, had all the equipment at hand. After getting permission fr Luminart, Dimond went to work. Armed with a company b chure, a Macintosh computer, and a scanner—a device t translates hard copy into computer files—Dimond c tured the full-color image of the brochure. He s this, and some of the brochure's text, to a nea Internet provider called Wimsey Information Ser es Inc., where he already had a Web site. Vo "http://www.wimsey.com/dims/Luminart.html": Unofficial Luminart World Wide Web Site.

In one fell swoop, Dimond made information ab this fly-speck company available to the roughly million people who use the Internet worldwide. cause of the Web, Dimond was able to set forth case to the masses—something previously only poss for large corporations. Now, other small investors

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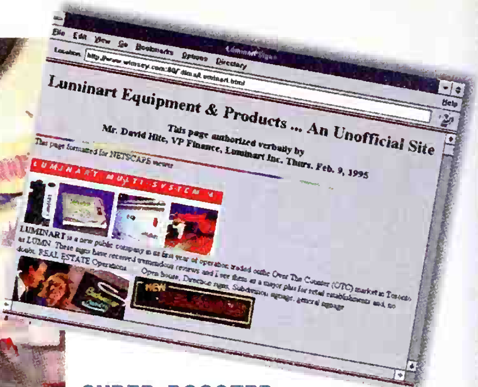
Cover Story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LUMINART MULTI-SYSTEM 4
NEW

Luminart Equipment & Products ... An Unofficial Site

This page authorized verbally by
Mr. David Hite, VP Finance, Luminart Inc. Thurs. Feb. 9, 1995

This page formatted for NETSCAPE viewer

CYBER-BOOSTER
Small investor Dimond set up a Web site to proclaim his faith in battered Luminart

likely to do the same. On May 9, Prodigy announced it will give subscribers the ability to set up their own Web pages. And the other major commercial services are sure to follow.

For Dimond, it was a simple issue: "Instead of panicking, I took action." Whether or not people should listen to him is, of course, another matter.

The Prospectus

A chichi New York designer beermaker, Spring Street Brewing Co., announced in March that it was placing an initial public offering prospectus on a World Wide Web page. It was billed as the "first online prospectus." When I saw the press release, I was taken aback. Hell, I had seen plenty of online prospectuses from the first sputter of my trusty Hayes Accura 144 modem.

Take a posting I saw in "misc.invest" some weeks before Spring Street sprung its IPO on the investment world. The earlier posting solicited "$7.7 million in equity investment over a 13-month period" for an unnamed product from an unnamed company that has "no competition" and would be sold via "TV direct marketing followed ASAP by retail." A profit-and-loss table was included in the message. And boy, it was the kind of investment prospect that would make Morgan Stanley hyperventilate. This company projected a first-year loss of $2.5 million on sales of $16.4 million and explosive growth thereafter, with profitability in the second year and earnings of $22.5 million on revenues of $137.5 million in the seventh year. An E-mail address was provided for further information. I wrote!

DISARMINGLY CANDID. I swiftly received "an executive summary extracted from the business plan for your review." Here's an executive summary of the executive summary: The company—Pocket Made Inc.—is planning to introduce a "revolutionary automated cleaning device for which it has patent rights." The device is Pocket Maid, a "handheld, battery-powered, rechargeable, portable scrubbing/cleaning device."

I turned to the chapter headed "The Investment and Return." The Pocket Made folks were a bit vague about fairly basic things, such as how much the shares would cost. So I called Pocket Made in Chicago to find out a bit more. They were disarmingly candid.

I was particularly interested in the legal aspects of the offering. After all, I had always been under the impression that the Securities & Exchange Commissi was touchy about the way compani raised capital. Bill McAninch, "vice-pre ident of operations, secretary, and tre surer," says that Pocket Made was off ing a private placement. In the newsgroups? That stru me as a mighty public way of conducting a private placeme McAninch and another company official conceded that th probably did go about the thing as if it were a public offeri which is supposed to be registered with the SEC and t states where they're soliciting funds—which, this being U net, would be all of them.

Did Pocket Made register any securities with the SEC? N Or even a single state? No. So wasn't Pocket Made offering sale of unregistered securities—a fairly serious violation the federal and state securities laws? Well . . . "In a sense it not legal, but the SEC never will enforce it," says McAnin "Basically," he added, "we were advised not to panic, that t government understands that it's not legal but never has pr ecuted anybody. They deliberately ignore low-level violation

LOOKING THE OTHER WAY? The Pocket Made people say th no one actually invested any money as a result of the Net licitations. And once McAninch became "queasy" about legal issues after talking to his lawyer, he says, he stopp posting on the Net. But he was not missed. "There are liter ly thousands of offerings on the Net. The proliferation is t mendous," McAninch notes.

SEC officials say that the agency's market-surveillance gro is keeping an eye on the situation. In March, the SEC filed against a Florida company for promoting a pyramid scheme the Internet. State securities officials in New Jersey, Ohio, Texas have begun prosecuting online investment scams.

Still, the buzz online is that the SEC and state regulat are turning a blind eye. The evidence for that? Well, tak look. Andrew Klein did. He's the former Wall Street law who heads Spring Street, and he made sure—in complia with a recent SEC no-action letter—that his online prospec had everything the offline prospectuses are supposed have, including ferocious-sounding "risk factors." He cruised the newsgroups, and it makes his lawyerly bl boil. "I'm amazed at the huge number of blatant securit law violations going on in the newsgroups," says Klein. officials say they have noticed an "enormous" increase in line securities offerings. So why are they doing so litt When I cruise the newsgroups, particularly "biz.misc," see post after post offering moneymaking schemes, the S see-no-evil attitude reminds me of Claude Raines's immor line in *Casablanca*: "I'm shocked—shocked!—that gambl is going on here!"

Continued on page

CHRIS SCHRAMEK

ars, but the 20-year-old
gests that classic lines
it of style.

Instead, I casually sipped a cup full of hot coffee and spilled not a drop. I was driving a Range Rover.

In 1970, however, Rover did itself proud with the introduction of what was at that time the finest 4-wheel-drive utility vehicle in the world, the Range Rover. Seventeen years later, there still is nothing finer. And, at last,

In my book the Range Rover still has no equal when it omes to the contradictory tasks of providing on-road otoring in comfort and style and the off-road ability of a ountain goat when the urge or conditions beckon.

“IT’S AS IF SOMEONE BUILT A LUXURY CAR ATOP A LOCOMOTIVE.”

trast heavily with the leather and wood. The view

fordin
mud
meml
choos
exped
aries

ver is a classic
from function.

We traveled in a comfort, style, and confidence only the Range Rover provides.

DESCRIPTIONS OF THE ROVER’S EXTERIOR INCLUDED “the class classic,” “distinctive, impressive and handsome,” “angular but stylish,” and “boxy but elegant.” One tester wrote

ere’s simply
hat does the job
style and grace
Range Rover.

No other SUV has the Rover’s unique combination of style, performance, and quality

The unanimous verdict: If man were only allowed to own one car, and if that one car were meant to be the perfect all-rounder—spacious, comfortable, powerful, capable of going on where the roads end—then the choice would quickly narrow down to one vehicle: the Range Rover.

“In short, the Range Rover i still the best i the world at what it does.”

Rover

id the opportunity to
t Range Rover, then a
ehicle, at the compa-
England, off-road test
is the most impressive
rive (4WD) vehicle I’d
No wonder it was win-
y rallies through the
deserts of Africa. It
much different today-
are under the skin-but
s the best and
ehicle I’

Really serious
long acknowledge
Range Rover as th
wheel-drive car w
consideration in t
truly great, and it
e among sport-
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n to the lege

The Ra class by luxury

E SHOWN INCL OPTIONAL EQUIPMENT $45,000 [illegible]

ne Range Rover Classic. We had some help with the name.

or a quarter of a century, Range overs have survived the most brutal rritory in the automotive world.

The editorial page.

Therefore, the County Classic needs tle introduction.

Suffice it to say that its 14-gauge eel chassis, pillowing electronic air spension, permanent four-wheel ive, and tireless 3.9-liter V8 engine ake this Range Rover ideal for driving over endless rock beds, through arctic blizzards, and back to the executive parking space.

Its dual airbags, all-terrain ABS, and electronic traction control help make its armchair seating all the more relaxing.

And at around $45,000,* it may well be the only affordable work of art ever exhibited at the Louvre.

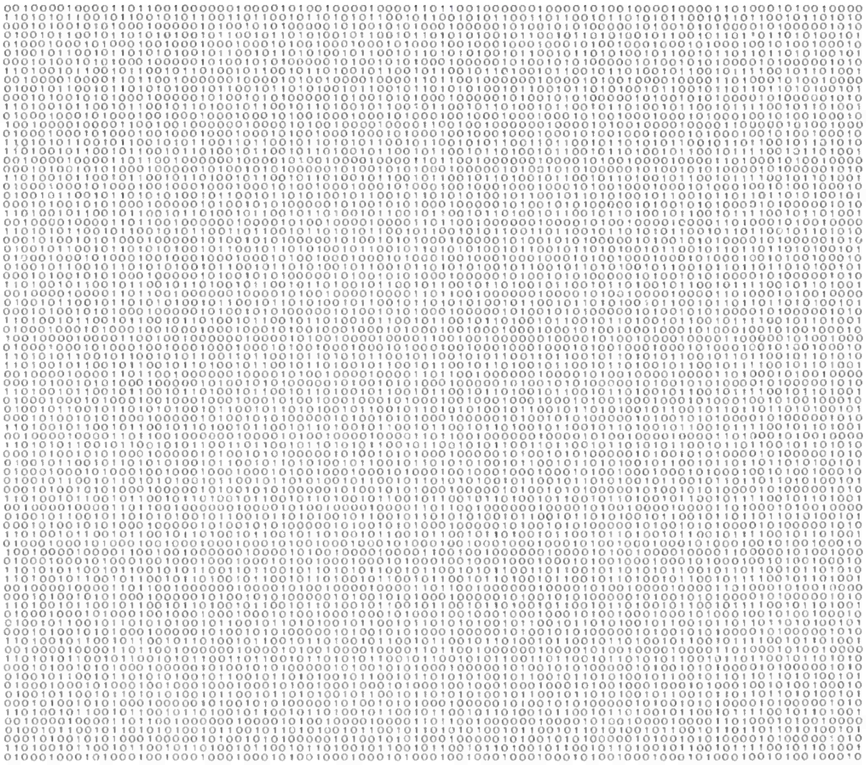
So why not call 1-800-FINE 4WD for the Land Rover dealer nearest you?

The County Classic is, after all, the most refined and elegant version of the original Range Rover.

But don’t take our word for it.

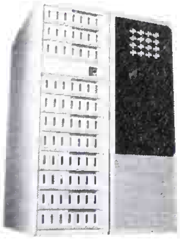
LAND ROVER RANGE ROVER

Your customer data has never really given you a clear picture of your customer.



Announcing The Open Parall

Decision support is one promise of information technology that has never been fully realized. Its aim is to help you uncover trends hidden in your databases, so you can manage information to satisfy customers and compete more vigorously.



Unfortunately, there's been no practical technology to make large-scale decision support possible. Companies that have tried haven't offered much beyond some hardware and a handshake.

But now, Unisys presents the most comprehensive decision support solution in the industry. It's built around the *Open Parallel Unisys Server (OPUS)*- a joint Unisys and Intel initiative in sc

able parallel processing. And it can hel

you **CUSTOMERIZE** your organizatio

to be more responsive to those you serv

OPUS breaks through the barrie

that have kept parallel processing fro

being commercially practical. It's UNI

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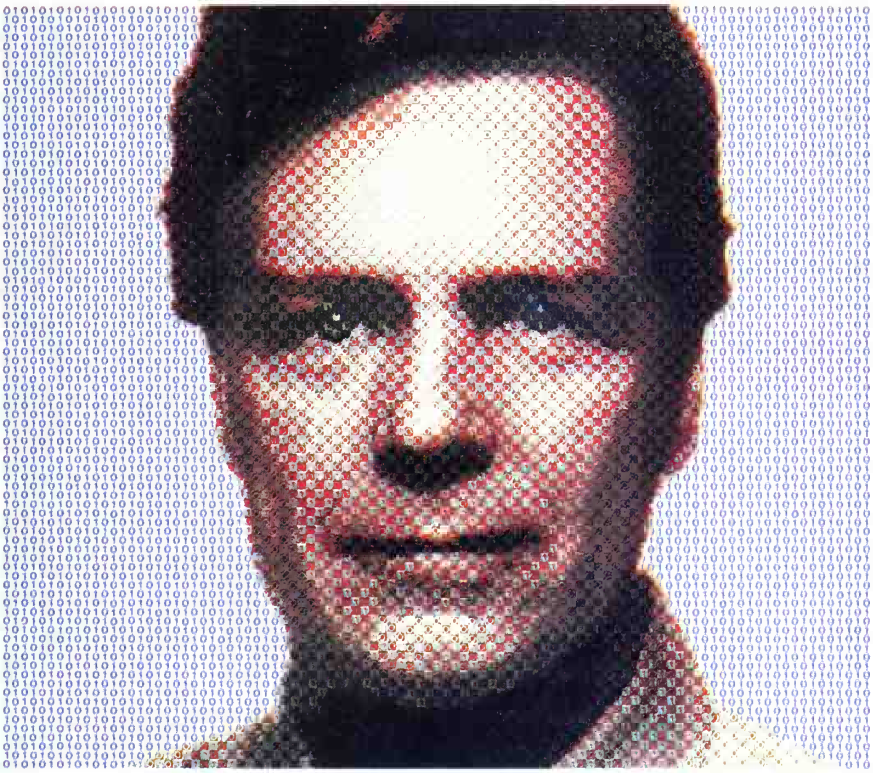
Until now.



isys Server For Decision Support.

based for openness, and offers unsurpassed database independence, with easy growth and ication portability.

tel inside ntium

OPUS supports databases from le, Red Brick and other leaders. Plus, 's already a portfolio of applications to make decision support an instant reality for key industries. And to deliver a complete solution, Unisys is deploying a new service team dedicated to decision support consulting and implementation.

UNISYS

To receive your *OPUS* information, contact us on the Internet at **http://www.unisys.com/adv** or call **1-800-874-8647, ext. 219.** Because once you can manage information instead of just process data, you'll get a clearer picture of what's really important to your success–your customer.

The Street

So what's Wall Street's attitude toward all this? That was the question I kept asking everybody I ran into online. The answer is simple. With a few notable exceptions, Street types wouldn't be caught dead online.

For the most part, it is the adventurers of investing—the computer-intense traders—who use the online services most. Futures traders are particularly heavy users, and newsgroups devoted to futures trading and technical analysis are popular with Wall Street futures and options traders. Many independent traders are habitués of these newsgroups and the commercial services. One independent futures trader in New York, Larry J. Lawrence, told me he even stumbled on a discussion of advanced technical-analysis software in a Prodigy investment bulletin board.

For the most part, however, the Street's main online preoccupation has been the prosaic business of taking customers' orders. Not surprisingly, the powers of online brokerage include the biggest discount brokers—Charles Schwab, Fidelity Investments, and Quick & Reilly. The big wire-houses are not anxious to replace their flesh-and-bones brokers with computers, and the only one with a significant online presence is a large trade-execution firm, the Pershing division of Donaldson, Lufkin & Jenrette Securities Corp. Pershing's online entry is a discount brokerage, PC Financial Networks.

Cover Story

Executing trades online may seem like a humdrum business, but in fact it's as hot as an overused modem. According to a study by Forrester Research Inc., a Cambridge (Mass.) consulting firm, the number of online brokerage accounts is likely to more than double, from 600,000 to 1.3 million, over the next three years. And that number may be conservative if Schwab, now linked to the laggard GEnie online service, shifts to one of the larger online services. Online investing's growth has been phenomenal: PC Financial had all of 10,000 accounts in 1990, and by dint of a hookup with Prodigy, it now has 160,000. Schwab claims the lead, however, with 170,000.

HAMPERED BY HACKERPHOBIA. Online investors tend to be more active, holding much larger balances and making bigger trades, according to Schwab Vice-President Carolyn Stewart, who heads the discounter's online effort. Operating margins are helped by the fact that the brokers are literally replaced by a computer—and by lower-paid recent grads. "The average age here is 25," PC Financial's Chief Operating Officer Blake Darcy told me at PCF's spanking-new quarters in Jersey City, N.J.

But the Street has kept a generally low profile online, with few firms even maintaining sites on the Web. Hackerphobia is one prominent reason. "The comfort level just is not there, and we can only speculate about the reason," says David Spector, head of the Internet services group at J.P. Morgan Securities Inc. In this tradition-steeped firm, comfort with the online world is high—sort of. The company has placed its Riskmetrics risk-assessment methodology on the Web, as well as detailed mortgage application data and an industrial commodities index—all fascinating to institutions but about as much use to individual investors as tide tables for the English Channel. Well, at least they're trying.

Morgan analysts and economists say they keep an eye on the emerging markets and the world fixed-income markets via Internet mailing lists, newsgroups, and E-mail. "As one of our analysts put it, 'Ever try faxing something to the Soviet Union?'" says Lisa Ezrol, a Morgan techie who helped set up the Morgan Internet connection.

Unlike most people on the Street, Morganites have the Internet literally at their fingertips. Any Morgan analyst or economist can get access to the Morgan internal "home pag which contains light and heavy Web stuff—New York City i formation, as well as financial and economic data sites. But a parently the Morganites are either ashamed to talk abo their Internet interactions or unwilling to share data sourc with their competitors. Although Morgan executives assur me that their people are heavy Net users, the Morgan publ relations staff searched diligently but couldn't find a single vestment pro or economist who was willing to talk about

NO TIME TO PROWL. Left to my own devices, I searched t newsgroups, using a nifty commercial Internet search dev called Infoseek, and found a bunch of Morgan people, alm entirely engaged in highly technical palaver in the comput newsgroups. For all I know, they might have been lurking using the Internet mailing lists, but I found only a sin Morganite who posted anything in the "misc.stocks" new group. I found the post when a novice's request stock symbols was answe with typical online helpfuln by a fellow named Kyle R den at "jpmorgan.com."

PC Financial Network
PC Financia
Invest with contr
om your PC at
America's larges

JEFFREY LOWE

ONLINE DISCOUNTER

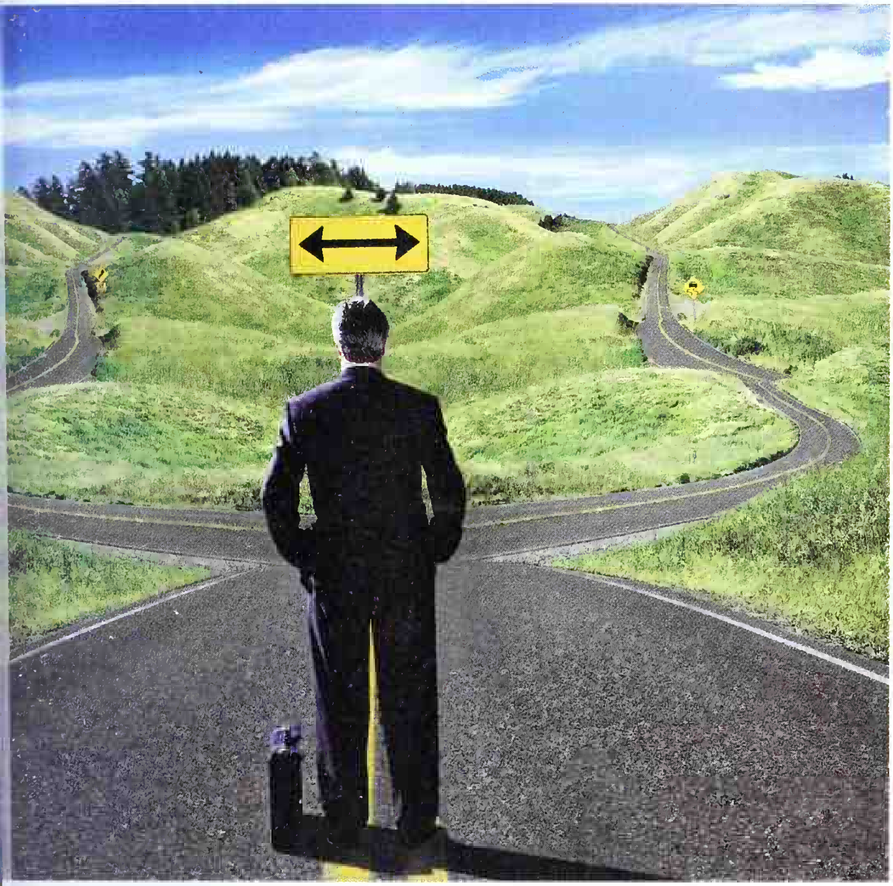
"The average age here is 25," says Darcy of brokerage PC Financial

It turned out that Rudden is a utility stock analyst Morgan. He finds the Net useful—to a point. He told me has used the Edgar database of Securities & Excha Commission filings. But he was not brimming with ent siasm for the Internet. The problem? He just hasn't got t to prowl the Net.

But I did, and what I saw intrigued and fascinated And it's inevitable that J.P. Morgan is going to be joined the rest of the Street. Like it or not, the online world is h to stay. And despite all the stock hyping and other sleaze, s online investing. It is at that rare point in the life of any inv ment innovation—a frontier that has gone unexploited by Street. But the time is growing short before the pros s trundling in. Until then, small investors will have the on world to themselves. Better enjoy it while it lasts.

By Gary Weiss in New Y

Our Business Is Helping Yours® Buy What Money Can't.



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FLEET SERVICES • GECC FINANCIAL (HAWAII) • GENSTAR CONTAINER • GLOBAL CONSUMER FINANCE • GLOBAL PROJECT & STRUCTURED FINANCE
GNA • MODULAR SPACE • MORTGAGE INSURANCE • MORTGAGE SERVICES • PENSKE TRUCK LEASING • RAILCAR SERVICES • RETAILER FINANCIAL SERVICES
TECHNOLOGY MANAGEMENT SERVICES • TIP/TRANSPORT INTERNATIONAL POOL • VENDOR FINANCIAL SERVICES

how

machine

we

The machine is
nothing
but nuts, bolts and chips
until infused with
ideas,
thoughts,
notions,
that come to it
through a keyboard.

TALK

To work faster,
to work seamlessly with
the machine,
you need a keyboard that is integrated
with Microsoft® Windows,®
with the software that runs
the machine.
The Microsoft Natural Keyboard.™
Launch applications and files,
select menu items
(cut, paste, move, insert),
connect to a network server,
move the cursor automatically
to a specific word,
to a command button,
with special keys,
with simple keystrokes.

to

Together with a Microsoft Mouse
that instinctively slows the cursor
when near an icon,
that knows when to double-click,
you have extensions of the machine,
of the software,
that fit comfortably beneath your hands.
That connect you
to a mean, lean,
thinking
machine.

e

Microsoft

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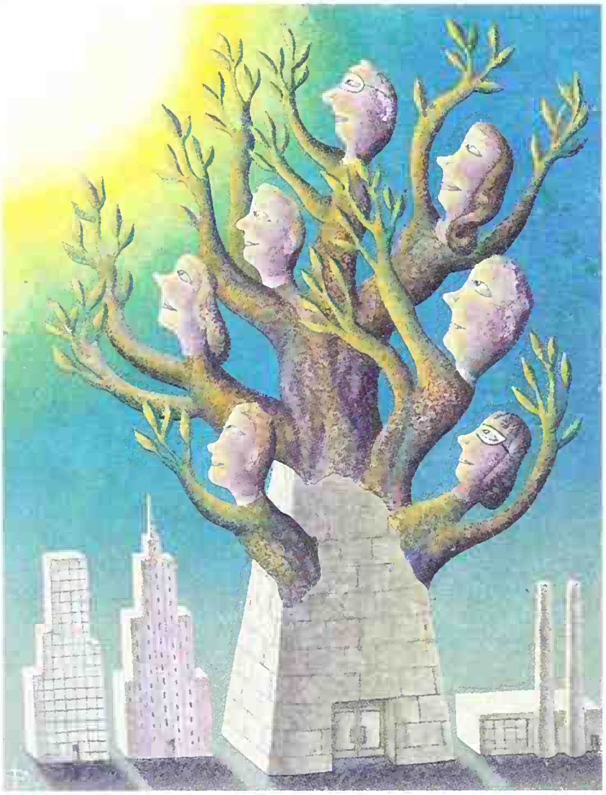
TRENDS

COMPANIES HIT THE ROAD LESS TRAVELED

Can spirituality enlighten the bottom line?

It's Spiritual Unfoldment time at the World Bank. Every Wednesday at 1 p.m., a group of bank employees sits in a semicircle in a conference room at the Washington-based agency and connects. Today, it's standing-room only. There's no stereotyping this crowd of about 60, which includes senior managers and young assistants. Group founder Richard Barrett, an engineer at the bank, leads the meeting, which begins with a moment of silence. Today's topic: "Ten Strategies for Attaining Soul Consciousness." After an hour of talk about such things as realigning ego and soul, even staffers who arrived looking wilted leave smiling.



BLAIR DRAWSON

SOUL SEARCH. Get used to it. Spirituality is creeping into the office. Having survived downsizing and reengineering, overworked employees are stealing a moment and asking: "What does all this mean? Why do I feel so unfulfilled?" And companies are turning inward in search of a "soul" as a way to foster creativity and motivate leaders. "We certainly have been through a period of excessively rational, painful thinking," says Jeffrey A. Sonnenfeld, director of the Center for Leadership & Career Studies at Emory University. "But the great interest in cost-cutting often cut out the soul of an organization."

It may sound flaky, but a growing number of companies are setting off on spiritual journeys. It's not about bringing religion into the office or requiring that employees chant mantras at their workstations. Rather, the spirituality movement in the corporation is an tempt to create a sense of meaning purpose at work and a connection tween the company and its people.

Depending on the outfit, that mean anything from employees join discussion groups to hiring consulta who help workers feel better about th lives so they can be more productive. some offices, only a few managers departments are reflecting on thi spiritual. In others, it's the CEO wh championing the spiritual approach an attempt to unify workers aroun common purpose.

CASH FROM KARMA? While s very new, the trend is start to go beyond fringe compan or vaguely foreign instituti like the World Bank (table). tus Development Corp. has "soul committee" that mal sure the company lives up to stated values. Boeing Co. recr ed poet David Whyte to read ems and regale top manag with fables as part of a progr to revitalize their spirits on job. And some divisions of AT are referring managers to training program intended to energize them at the job. S Lawrence Perlman, CEO of M neapolis-based Ceridian Co and an advocate of the spiritu ity trend: "Ultimately, the com nation of head and heart will a competitive advantage."

Employees, meantime, are barking on their own spirit quests. In living rooms and line, they're asking how to l their personal values and th jobs. "There's a real backlash the 1980s' treatment of humans as j something to dispose of because t cost money," says Judith A. Neal, as ciate professor of management at University of New Haven, who publ es the newsletter *Spirit at Work.*

And this is just the start, pred

Spirituality as a Management Tool

How some companies are trying to motivate employees and create a strong identity or "soul":

BOEING	AT&T	LOTUS DEVELOPMENT	MEDTRONIC
As part of a cultural overhaul, 500 top managers are listening to poet David Whyte three days a month for a year. The goal is to help executives be more creative by thinking differently about their company and their lives.	An outside consultant is coaching managers in certain units to be better leaders by helping them define their values. AT&T says the training has helped improve employee attitudes and leadership skills.	A "soul" committee is reexamining the company's management practices and values. Its aim is to build a strong culture and use Lotus technology to enhance teamwork.	The medical device maker sees its "mission" as restori people to full health and use that to motivate workers by appealing to their desire to part of something bigger tha themselves.

DATA: BUSINESS WEEK

blah blah blah blah de blah blah

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blah blah blah de blah blah blah

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blah blah blah de blah blah blah

blah de blah don't read this blah

blah blah blah blah blah blah de

blah blah blah blah de blah blah

HE (*now that we've got your attention,*
may we interest you in highlight color) COMPANY

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the Institute for the Future in Menlo Park, Calif., a research firm that forecasts trends. “We think the issue of meaning is going to be more and more important in companies,” researcher Robert Johansen told a recent conference of human resource executives. The institute is launching a study of companies' efforts to help post-downsizing employees find meaning in work. That could help companies evaluate whether they're getting any results—something few can prove thus far.

“POMPOUS CLICHES.” Results aside, there is no denying the popularity of the work and spirituality theme. Consider that two new books on the subject, *Jesus CEO* by Laurie Beth Jones, and Whyte's *The Heart Aroused: Poetry and the Preservation of Soul in Corporate America*, are on business best-seller lists. Still, other successful business authors are skeptical. “On the one hand, many of these books seem to me to be just a lot of pompous clichés strung one after another,” says Michael Hammer, co-author of *Reengineering the Corporation*, which put reengineering on the map. “On the other hand, they clearly speak to something that's bothering people.”

The notion of mixing spirit and business is suspect at its core, say critics. Blurring the line between spirited and spiritual, says management guru Tom Peters, gives managers too much entrée into employees' personal lives. “The word ‘spirituality’ says that you're screwing around with a part of me I don't want touched,” says Peters.

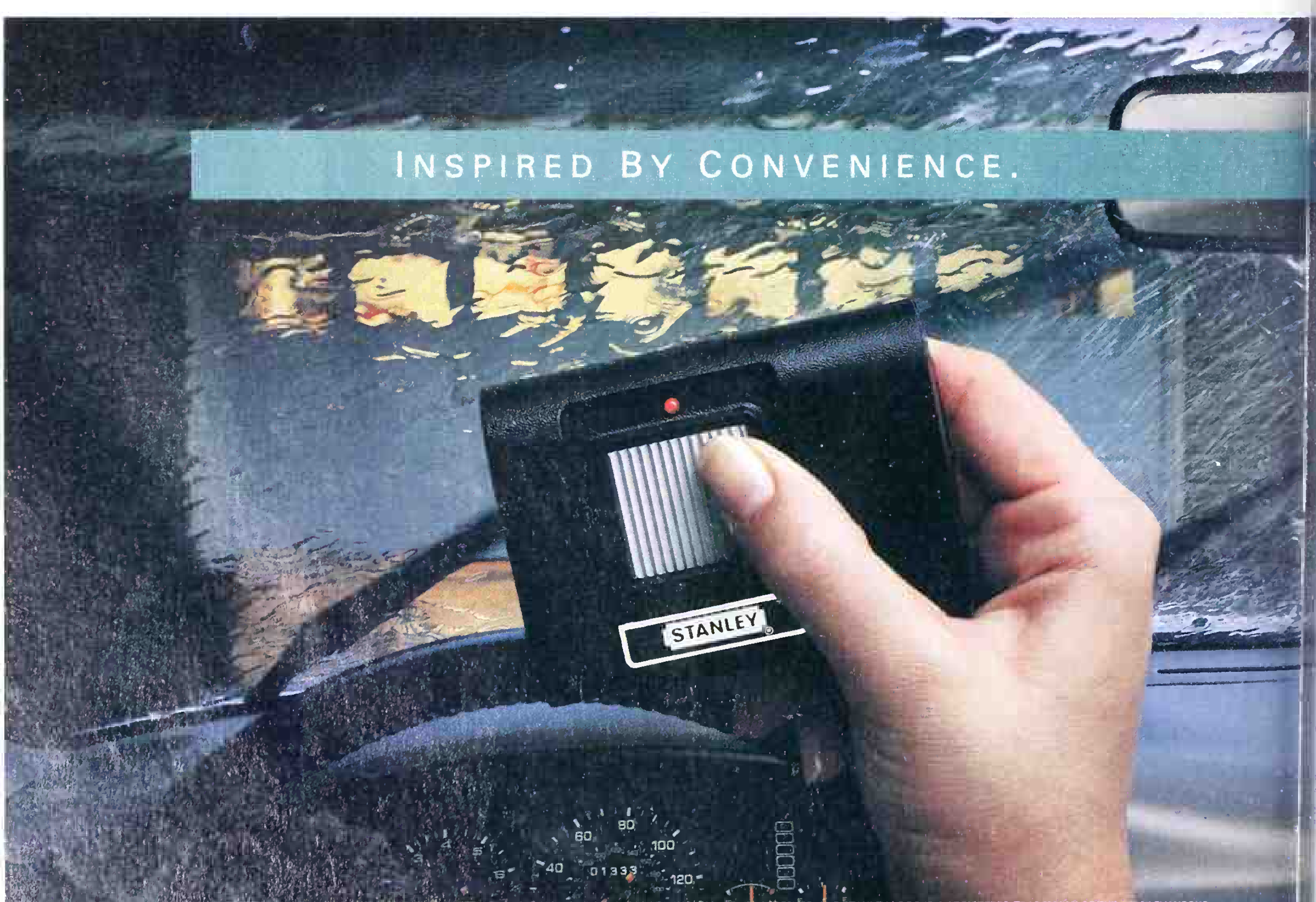
Others insist that the only way to bring spirituality to work is from within—not by having companies impose values or attribute some larger meaning to their jobs. “I worry that companies will make spirit the program of the month and use it to manipulate people,” says Neal. Some employees, especially those who are devout, say they resent having anyone in the office talk to them about spirituality.

Of course, the new soul movement hasn't quite caught on like other trends, such as total quality management. Its most vocal proponents are still the “New Age” companies that live off their aging-hippie images. Take Tom's of Maine, the maker of natural personal-care products. Founded in 1970 by Thomas M. Chappell and his wife, Kate, the Kennebunk company boasts 75 employees and sales approaching $20 million.

As Chappell, a Harvard divinity
school graduate tells it, the compan
aim is “serving our customers and se
ing our community” by abiding by ce
tain values. They include supporting t
environment, as well as treating wo
ers, suppliers, and customers with r
spect. Tom's also encourages employe
to donate 5% of their time to volunte
work and gives 10% of its pretax prof
to charities—money, Chappell notes, th
could be spent on advertising. In 19
he outlined his thinking in *The Soul o
Business: Managing for Profit and t
Common Good*. The bestseller has ma
Chappell a leading guru of soul (table

WHATEVER WORKS. More mainstrea
companies are using spirituality as
way to prod workers and inspire mana
ers, but they're still squeamish abo
admitting it. “Don't quote me using th
word,” warns Southwood J. Morco
CEO of Toledo-based Dana Corp. Ma
executives use such words as “value
and “mission” to talk about motivati
and meaning in the workplace.

At AT&T, managers don't really ca
what the program is called, as long as
seems to be working. Since 1990, AT
units have referred hundreds of mid
managers to Transpective Business Co
sulting in Woburn, Mass., at $1,65



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d. The program is intended to help nagers be more effective leaders by ter tuning in to themselves and to ployee needs.

Throughout the grueling, three-day rse, leader Philip Massarsky uses vid- written exercises, and poems to help ticipants cut through their inhibitions. then has them write up a plan that help them live by their values at the e. About six weeks later, they return Woburn to report on their progress. Davis, a manager at AT&T Network tems, says that after one year, busi- s and engineering managers who went through the course showed marked improvement in leadership skills, as measured by employee surveys.

Aerospace giant Boeing is also rethinking its traditional approach to business. In February, President Philip M. Condit hired Seattle poet Whyte to speak to 500 top Boeing managers three days a month as part of an intensive, year-long executive training program. A dynamic speaker, Whyte doesn't lecture but recites dozens of stories and poems, including some of his own, to help bring to life the experience and emotion of change. One American Indian story he frequently uses at the start of a talk is about being lost in the woods. It begins:

Stand still. The trees ahead and
bushes beside you
Are not lost.
Wherever you are is called Here.

Gurus at Work

AVID WHYTE The Yorkshire-born poet ote *The Heart Aroused: Poetry and the eservation of the Soul in Corporate nerica*, a BW best-seller. A powerful eaker, Whyte has consulted with AT&T, eing, and Dana.

HOMAS M. CHAPPELL The founder Tom's of Maine and a Harvard divinity hool graduate, his 1993 best-seller, *The ul of a Business*, helped trigger discus- n about values and meaning at work. 's now a sought-after speaker and consul- nt who uses a well-publicized set of values market and run his business.

JAMES A. AUTRY The former president of Meredith Magazine Group, now a poet, author, and speaker, urges business leaders to tend to the human and spiritual side of work through his ruminations in *Love & Profit* and *Love & Work*.

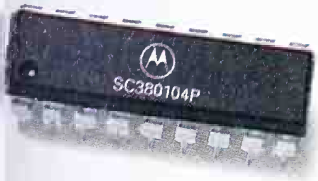
TERRENCE E. DEAL A Vanderbilt University management professor and best-selling author, he was one of the first to write about corporate cultures. He's now preaching the importance of spirituality in his new book, *Leading With Soul*, a business fable written with co-author Lee G. Bolman.

DATA: BUSINESS WEEK

THE JUICE. Whyte says such poems help managers and other employees to rethink their daily habits and assumptions, thus stirring up some creative juices. "All the companies that are alive are realizing that they need more creative, vital, and adaptable workers," he says. "All that creativity and vitality and adaptability resides in the soul." One senior executive with 20 years at Boeing, who was initially skeptical of Whyte, is now a convert. "My first reaction was: What a waste of time," he says. "I thought to myself, what could a poet possibly contribute?" But the executive now says that Whyte "helped us to think differently than we ever had before. We had to look inside ourselves."

Giving overloaded managers time out to contemplate the trees will probably make them better workers—at least for a while. But in these times of massive layoffs and global pressures, it may take more than a little poetry to raise people's spirits over the long haul.

By Michele Galen in New York, with Karen West in Seattle



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RETAILING

TRADER JOE'S ATLANTIC OVERTURES

The hottest West Coast food retailer prepares to head east

'Yippie aye oh—Trader Joe's is coming East," exclaims Sherie Winston. The last time the newsletter writer visited the quirky Southern California grocer, she packed an extra suitcase full of mocha-raspberry low-fat muffins, smoked bean dip, and six kinds of salsa to lug home to Washington, D.C.

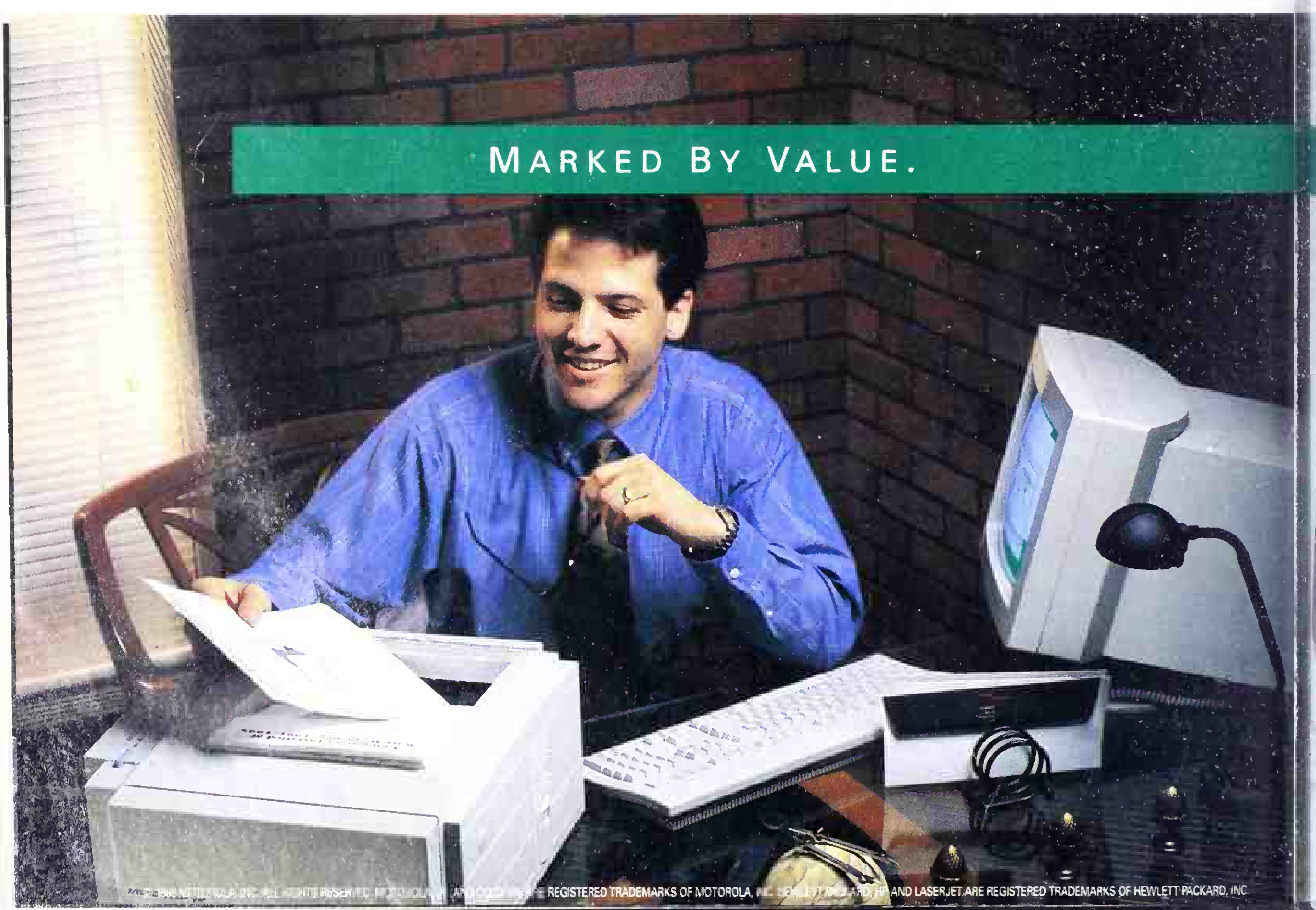
Imagine a cross between a gourmet deli and a discount warehouse club, and you've got Trader Joe's Co. Like L. L. Bean Inc. or Ben & Jerry's Homemade in the early days, Trader Joe's has developed a cult following—for its bargain wines, upscale private-label foods, and manufacturers' close-outs. "They are the fashion leader in food in Southern California, and they are damn near without competition," says Norman H. McMillan, a partner in retail consultants McMillan-Doolittle in Chicago, which doesn't have Trader Joe's as a client.

Now, the 28-year-old chain, with outlets from San Francisco to Phoenix, is heading east, where it aims to open 50 stores in five years, from Boston to Washington. "It's our hope to be on the East Coast by the fall of '96, but we have no leases signed," was the sole comment from Chairman and CEO John Shields, a former R. H. Macy & Co. executive. Since 1979, Trader Joe's has been owned by Germany's secretive Albrecht family, which also owns an estimated 4,500 Aldi's deep-discount food markets in Europe and the U.S. Trader Joe's, which has almost no debt and always pays cash, gets its funding from the Albrechts, who have an estima net worth of more than $7 billion.

Trader Joe's is tremendously pr able, industry experts say. And Shi has said publicly that sales more t doubled over the past five years, to year's $605 million; same-store sa meanwhile, have consistently grow more than 10% a year. By locating tiny stores—most measure fewer t 10,000 square feet—away from pr retail locations, it keeps real estate c low. Competitors estimate that sale its 72 stores average $1,000 per squ foot per year, double that of conv tional supermarkets and more t triple that of most specialty food sto

RARITIES. Its formula is no secret develops or imports unusual foods sale under the Trader Joe's label- Trader Giotto's or Joe-san's, if apt. it leverages its volume to insure it the lowest price. For example, it's largest retailer of brie in the U.S.- $3.99 per pound, a dollar less than n supermarkets. It keys in on trends portant to its young, educated custo ers: Ahi tuna is caught without n dried apricots are unsulfured—even p nut butter cups are all natural.

The store is full of bargains, wines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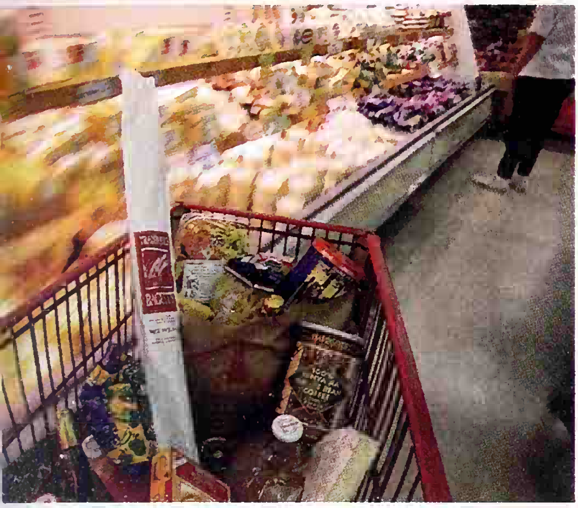

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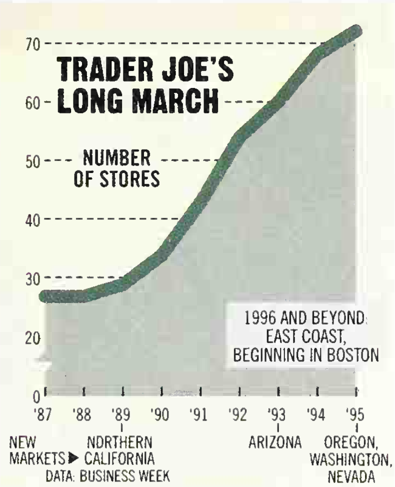


DATA: BUSINESS WEEK

pecially. Buyers taste more than 8,000 samples a year. It also buys other food producers' mistakes. Just now, customers can k up a pint of Ben & Jerry's disconued Banana Walnut, Cherry Vanilla, Coconut Almond ice cream for $1.49, the normal price. Or Danish butter kies packed in leftover Beatrix Potcentennial tins for $2.99.

All this according to the *Fearless er*, Trader Joe's zany 24-page newser, packed with product trivia and cartoons. It had a mailing list of more than 800,000 until rising delivery costs forced the company to distribute it in stores. "I wanted it to be a marriage of *Consumer Reports* and *Mad* magazine," says founder Joe Coulombe, who retired in 1989. The current issue, for example, asks its readers: Why buy a certain $3.99 Côtes du Rhône from Trader Joe's, which managed to secure 4,000 cases? Because the obscure chateau's vineyards extend just seven acres beyond the demarcation line for the more famous Châteauneuf-du-Pape.

"There's very little unique merchandising, and this is unique," says David Nichol, chairman of beverage maker Cott Corp. While president of Canadian grocer Loblaw Cos., Nichol copied the newsletter when he created President's Choice, now a $1 billion private-label line. "I stole the name and concept of *Trader Joe's Insider's Report* [the original name of *Fearless Flyer*] for President's Choice," he says. Two years later, flush with success, Nichol bought the name from Coulombe, who renamed the Trader Joe's version. Adds Nichol: "It is safe to say that President's Choice owes the majority of its success to Trader Joe's."

Will the California concept transplant to the East Coast? Shields will have to grapple with a maze of differing state laws, particularly those governing alcohol. And while dry goods can be trucked east, the chain will have to line up suppliers for products such as baked goods—without the initial volume clout it enjoys back home. But if it can make the move, there's sure to be a contingent of California expats like Winston eager to load up on chic food bargains.

By Larry Armstrong in Los Angeles

ERIC SANDER

POWERED BY MOTOROLA.

TALK ABOUT THE WRITE STUFF. THE HEWLETT-PACKARD LASERJET 5P PRINTER DELIVERS HIGH RESOLUTION AT A LOW COST. LASER-QUICK. WIRED OR WIRELESS. IT HANDLES ALL YOUR BUSINESS LIKE NOBODY'S BUSINESS, THANKS TO ITS MOTOROLA COLDFIRE™ MCF5102 EMBEDDED CHIP. FROM THE LAST WORD IN PRINTERS TO THE LATEST GARAGE DOOR OPENER, PRODUCTS POWERED BY MOTOROLA ARE FAST BECOMING A WAY OF LIFE.

MOTOROLA
Semiconductor Products Sector

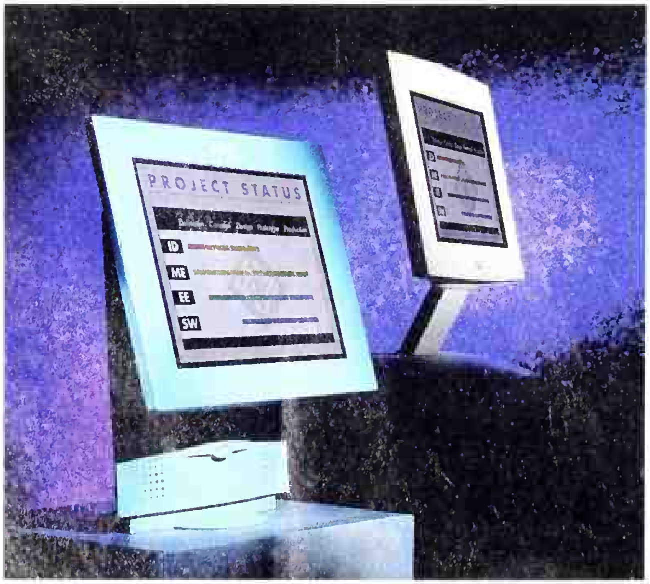
Winners

The Best Product Designs of the Year

'95 INDUSTRIAL DESIGN EXCELLENCE AWARDS

In the '70s, companies wanted designers to provide styling for their products. In the '80s, they began to ask for mechanical engineering as well. In the '90s, corporations are demanding that design firms deliver the whole shebang in product development—user research, industrial design, mechanical engineering, rapid prototyping, ergonomics, software interface design, graphics, packaging. As the 1995 BUSINESS WEEK/Industrial Designers Society of America annual awards show (page 101), a few even demand global capability—designing products that sell in Asia and Europe as well as the U.S.

Changing corporate needs are forcing flamboyant designers to become serious business people. Design firms, which only yesterday revolved around outsized egos, are fast becoming de facto extensions of the corporate world. Where companies once treated designers simply as creative "talent," used on a short-term basis, they are now hiring design firms for complex development work once done in-house.



A NEW LOOK

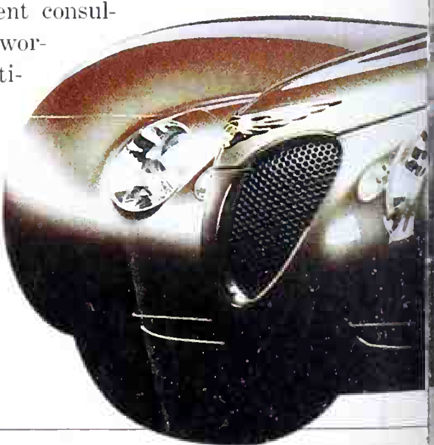
LCD COLOR MONITOR BY DESIGN EDGE

A new BUSINESS WEEK/Industrial I- signers Society of America survey of independent design consultancies hi- lights the shift. Big corporations incre ingly want to work with multiservice design firms that can more for them. Read through the survey returns: "We a moving from a single-project approach to multiple progra and long-term relationships with our clients," says Fitch I in Columbus, Ohio. "We are more integrated into the rest our clients' work," responded New York City's Smart Desi

Clients have a need for speed, too. Again, the BW/ID survey: "Clients demand shorter product-development sche ules," says Volan Design Associates of Boulder, Colo. "Time market is *it*," says GVO in Palo Alto, Calif. "Clients wa projects done *now*," writes Lunar Design, also in Palo Al

All of this is pushing industrial designers into the role product innovation suppliers to Corporate America. They doing soup-to-nuts turnkey projects that provide clients wi new products or entire product lines. And, for a select few sign firms at the top, it actually means selling innovati methodology itself. "We are now doing their research, app ing their core technologies, and conceptualizing future prod lines," says Gianfranco Zaccai, president of Boston-based I- sign Continuum. "Design is becoming much more strategic lot more like [management consultant] McKinsey."

Big management consultancies need not worry about competition from design houses yet. But design shops are clearly becoming more



(BOTTOM LEFT) PHOTOGRAPH BY STENCE & STENCE

ING PRETTY

HERMAN MILLER
ON CHAIR IS
AT FOR THE BACK

THE RIGHT TYPE

MICROSOFT'S KEYBOARD HAS A WARM APPEARANCE

formidable. One striking change: They are bulking up on technology. Ten years ago, a pencil and a $100 drafting table were all the tools ed for industrial design. Today, it's more like $50,000 to ,000 per person. Workstations from Silicon Graphics, lett-Packard, and Apple Computer have replaced the ing table. Sophisticated three-dimensional-rendering soft- now substitutes for the pencil.

ne BW/IDSA survey shows that expenditures for technolo- re doubling and tripling every year. For nple, if Design Edge of in or IDEO Product Development of Palo Alto, Calif., do a turnkey product-development project for a client, they might use the following: Alias 3-D surface software ($90,000 for the software and workstation); an IRIS high-resolution color printer ($100,000); Pro-Engineer software that simulates the physical properties of the product ($70,000 for a workstation and software); software for mold-flow analysis that allows data to be shipped to rapid prototyping CAMAX machines ($50,000) that interpret the information for the milling machines ($200,000).

Design is suddenly capital-intensive, and not every design boutique can scrape up that kind of money. Which is why a shakeup is consolidating the industry. At the top are a few firms, such as IDEO and Fitch, that offer full-service, global product development and consulting. These companies, with about 200 employees each, are among the biggest design firms in the world. Their revenues, workforce, and spending on technology are rising at near double-digit rates at

VA VA VROOM

CHRYSLER'S ATLANTIC CONCEPT CAR: THIRTIES STYLE

(TOP RIGHT) PHOTOGRAPH BY TED MORRISON

SAFE AND SEXY

BELL'S BIKE HELMET PROTECTS—AND FLATTERS—THE HEAD

a time when much of the design industry is shrinking.

A prime example of designer-cum-consultant, IDEO now creates combined teams with its corporate clients. As they work on a particular product, the IDEO employees also teach the client's workers the methodology of product innovation. At IDEO University, designers from Samsung Group and other clients also take courses on user research, rapid prototyping, and other design subjects. IDEO has a number of such relationships—with Steelcase, Japan's NEC, and AT&T. "We leave our clients with a new culture, not just a new product," says David Kelley, president of IDEO. "We work together on projects, but the goal is to pass on the process. It's strategic."

There's still a healthy business, however, for midsize shops that simply deliver the goods. These firms, with 30 to 50 people each, include SG Hauser in Calabasas, Calif.; Lunar Design

Winners for 1995

Here are many of the design firms and corporations whose products won Industrial Design Excellence Awards in 1995:

DESIGN FIRMS	AWARDS GOLD	SILVER	BRONZE	TOTAL
IDEO	2	3	3	8
DESIGN CONTINUUM	1	3	4	8
ZIBA DESIGN		2	2	4
FITCH	2	1		3
ION			3	3
DESIGN EDGE	1	1		2
JOSS DESIGN		1	1	2
PRODUCT INSIGHT		1	1	2
RKS DESIGN		1	1	2
ROBERT LUCHETTI	1	1		2
THOMAS NEWHOUSE		2		2
CORPORATIONS				
AT&T	2	1	1	4
THOMSON CONSUMER ELECTRONICS		1	3	4
APPLE	1	2		3
BLACK & DECKER	2		1	3
CHRYSLER	2	1		3
BELL SPORTS		1	2	3
HERMAN MILLER		3		3
MICROSOFT		2	1	3
CROWN EQUIPMENT	2			2
3M		1	1	2
BECTON DICKINSON		1	1	2
CIBA CORNING	1	1		2
DIGITAL EQUIPMENT	1	1		2
HASBRO/PLAYSKOOL	1	1		2
IBM	1		1	2

DATA: INDUSTRIAL DESIGNERS SOCIETY OF AMERICA

in Palo Alto, Calif.;
Design in Portland,
Group Four in A
Conn.; frogdesign
Sunnyvale View, C
and Herbst Lazar
in Chicago. They
to specialize in ce
industries—SG Ha
emphasizes medical
computers. Sundb
Ferar in Chicago,
27 people, has one m
client—Whirlpool
more, with whom
linked digitally.

For smaller de
shops, it's a race
niches. Makers of
sumer products—e
cially in Asia, w
many gadgets are
made—don't need
prototyping or soph
cated software.
Taiwanese, Korean,
Chinese companies
ing to move away
simply building co
nents and appliance
others to sell, this kind of business is growing fast.

At the top end of the business, however, the tren
clear: The biggest design firms are shifting to a professi
services model, à la Booz, Allen & Hamilton Inc. or Ande
Consulting. Instead of charging time and materials per
they are beginning to enter retainer relationships, playi
major role in helping clients plot overall product strateg

Will the trend bode well for the design industry? Well
spite the pain of consolidation, the results of the In
trial Designers Society of America awards, spons
by BUSINESS WEEK, indicate that some truly te
work is being executed. There were 150 Indu
al Design Excellence Award winners, twice
number of 1994. Some 33 golds, 56 sil
and 61 bronzes went to corporate and i
pendent design firms.

A number of patterns emerged du
the awards process. The most import
Borders between kinds of products are fa
quickly, thanks to the evolution of digital t
nology. The most obvious: the blur
of the line between consumer prod
and computers. With its ergonomi
designed curves, Microsoft Corp.'s

RUGGED

JEEP PORTABLE STEREO SYSTEM

(TOP LEFT) PHOTOGRAPH BY TED MORRISON

ENDLY
IGN
ITINUUM'S
ROCENTRIFUGE

natural keyboard, a silver winner, looks more like an appliance than a computer.

The boundary between the office and the home office is fad-
too. With so many people working at home or taking
k home, there is growing demand for comfortable furni-
that can be used in either place. The Herman Miller
on chair, which won
lver, is not only
itiful but great on
back.
he final border to
ppear is in the
ical field. The ster-
metal look is out.
Denver Instru-
ts Microcentrifuge,
ted by Design
tinuum, has soft
es and colors mak-
it appear friendly.
ok a gold.
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).'s curvaceous At-
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n by Design Edge
a gold as a con-
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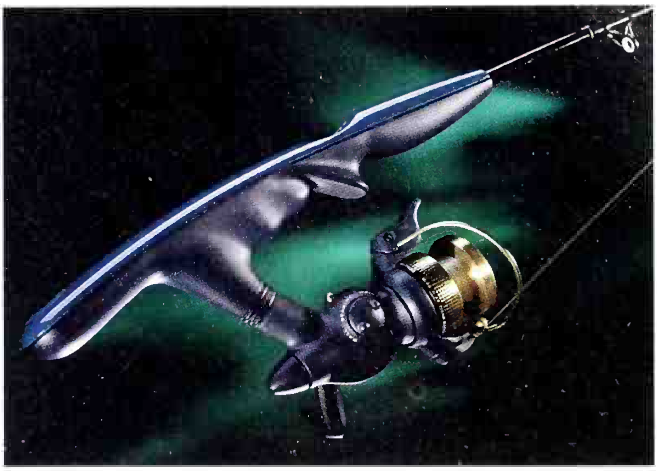
ed into a product
g built in Taiwan.
was a great year



A HEAD-SPINNER
FLASHCAST SP 2000 INTEGRATED SPIN REEL

for consumer products, too. For sheer beauty, there is little to compare to the silver-medal-winning Flashcast SP 2000 Spin Reel. Cost? Only $39.95. The Jeep portable stereo was the darling of the IDEA jurors: They loved its rugged, retro, ammo-box look, with toggles instead of touch-sensitive membranes. The Bell mountain bike helmet is pure excitement.

In software, this was the year for CD-ROMs. The Cartoon History of the World, by Human Code, took a silver, as did Microsoft's Encarta—both for their user interfaces.

There were also some serious business lessons to be taken from this year's contest. Despite its great bottom-line power, design can't compensate for the wrong pricing strategy or the wrong technology. One badly positioned gold-medal-winning product went out of production shortly after taking the award.

In the following pages, BUSINESS WEEK presents some highlights of the 1995 competition. The IDSA jury that decided on the award was composed of eight designers, who sifted through 766 entrants. Now, a few choice selections...

By Bruce Nussbaum in New York

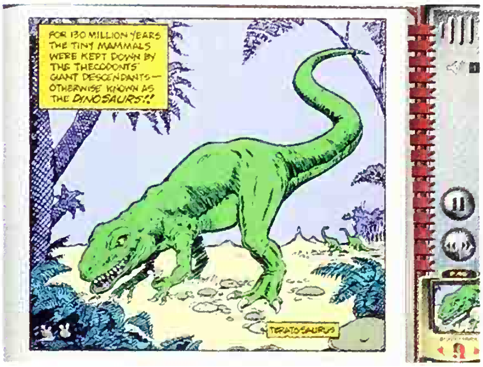
...And Over the Last Decade

It takes special talent to win year after year. Here are some of the very best in recent years.

DESIGN FIRMS	1980–94	1995	TOTAL
IDEO	28	8	36
ZIBA DESIGN	23	4	27
FITCH	19	3	22
FROGDESIGN	20	1	21
DESIGN CONTINUUM	11	8	19
LUNAR DESIGN	16	1	17
SG HAUSER	13	1	14
AMBASZ DESIGN	11	1	12
GROUP FOUR	10	1	11
HENRY DREYFUSS	8	1	9
CORPORATIONS			
AT&T	20	4	24
GENERAL MOTORS	20	1	21
STEELCASE	17	1	18
APPLE	14	3	17
IBM	14	2	16
HERMAN MILLER	11	3	14
CHRYSLER	10	3	13
BLACK & DECKER	7	3	10
DIGITAL EQUIPMENT	7	2	9
FISHER-PRICE	7	1	8
KNOLL GROUP	7	1	8
MICROSOFT	5	3	8
TEXAS INSTRUMENTS	8	0	8
THOMSON CONSUMER ELECTRONICS	4	4	8

DATA: INDUSTRIAL DESIGNERS SOCIETY OF AMERICA

BAP! LEARN!
HUMAN CODE'S CARTOON HISTORY OF THE UNIVERSE


FOR 130 MILLION YEARS THE TINY MAMMALS WERE KEPT DOWN BY THE THECODONTS' GIANT DESCENDANTS—OTHERWISE KNOWN AS THE DINOSAURS!!
TERATOSAURUS

SOFA SPUDS NEVER HAD IT SO GOOD

THOMSON CONSUMER ELECTRONICS PROSCAN
***DESIGNER:* THOMSON CONSUMER ELECTRONICS**

Thomson Consumer Electronics Inc. has become a familiar name among the winners of the Industrial Design Excellence Awards competition, and this year is no exception. Under the guidance of Louis E. Lenzi, general manager of design for Thomson, it garnered four medals this year, tying AT&T for top honors.

Nothing illustrates Thomson's commitment to good design better than its ProScan big-TV line. This year, Lenzi's team focused on making these increasingly sophisticated television sets easy to use. They began by improving the item consumers pick up first after they uncrate their TV—the manual, normally written in either Japanese-English or techno-English. Thomson assembled a team of cognitive psychologists, creative writers, and engineers to write a new guidebook, one that would encourage users to noodle around with ProScan's features.

The centerpiece of Thomson's customer-friendly effort is a graphical user interface with icons similar to those normally found on a PC. Selecting the graphic guides with the remote control, viewers can perform dozens of tasks. They can change picture quality, program personal viewing menus, and get answers to vexing questions. For guidance, there's Nipper, the venerable canine mascot of RCA, which Thomson bought several years ago. Nipper pops up to offer "little asides that help with a task," says Lenzi, who heads the 65-member team that created the second generation of the ProScan product line.

Lenzi and his team also outlawed complicated remote controls. ProScan's remote sports only eight buttons, compared to the 40-plus found on an average remote. It controls power, channel-changing, and volume, plus the on-screen graphic menu. It's shaped to rest easily in the palm, an innovation based on suggestions from the 100 prospective customers Thomson interviewed. Better yet, it operates using point-and-select from on-screen icons, making life easier for the dedicated couch potato.

CONSUMER PRODUCTS
BRONZE

Thomson de-signed the ProScan TVs, which retail for $449 for a 20-inch set to $8,500 for the monsters, around the la st electronics, too. A nearly at screen—built using a spe steel alloy to prevent ugly brown blister that wrecks flat-panel pictures—delivers movie-screen qu on all models. N inch tubes, rat than standard s en-inch, allow 80-inch projection to produce excel visuals.

However, the j was most impressed by the team's efforts to consider the man factor. "T worked really hard at making it e for the customer to use," says Elizab Powell, a vice-president of design for Sony Signatures, the licensing and merchandising arm of Sony Corp. In fact, Powell acknowledges that Thomson has consistently improved the styling and quality of RCA products since buying the operation from General Electric Co. in 1988. Coming from a Sony designer, that's a serious complimen

By Kevin Kelly in Chicago

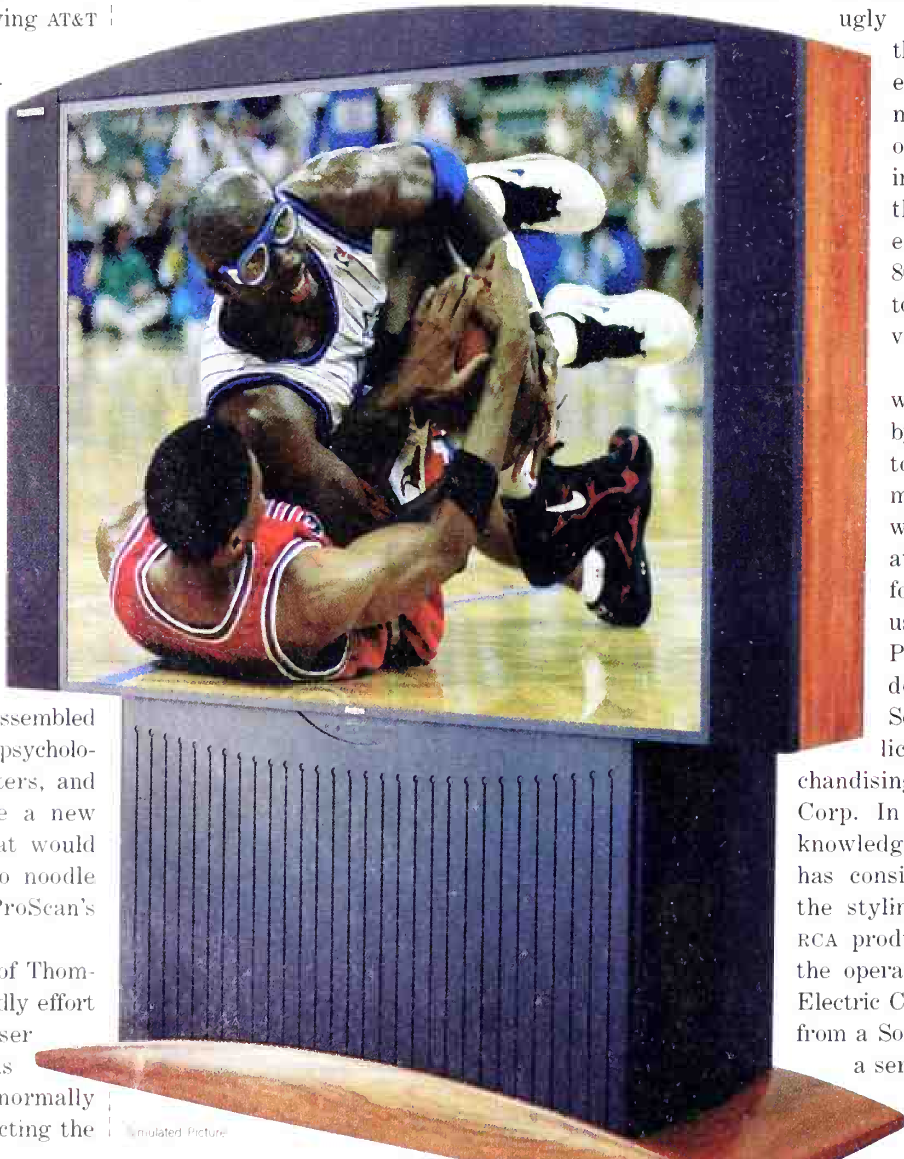
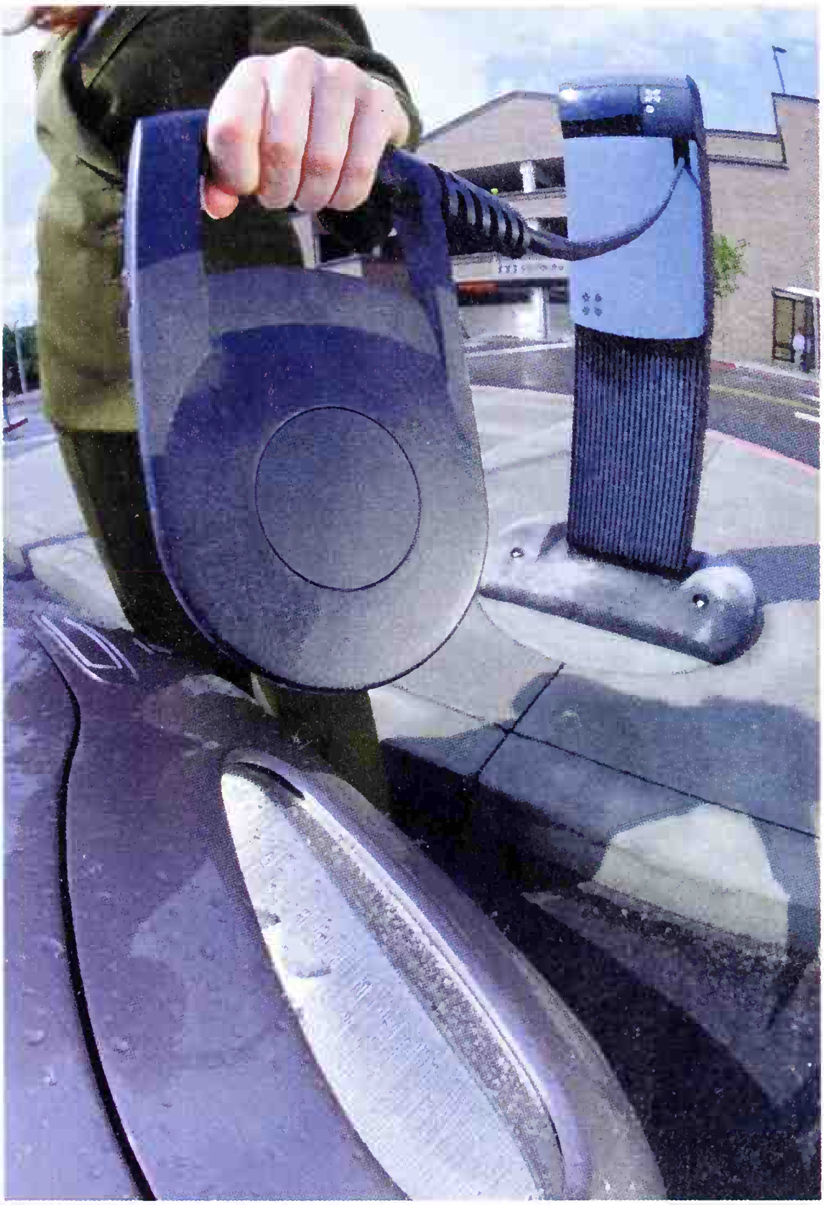


IMAGE COMPOSITED ON SCREEN BY [illegible]



RICHARD MORGENSTEIN

A JUICE BAR FOR THE ELECTRIC CAR

GM/HUGHES ELECTRIC VEHICLE CHARGING STATION
***DESIGNER:* IDEO**

A Walnut Creek (Calif.) parking might seem like unlikely spot to mpse the future. it's where the d-medal-winning igners at IDEO are ting a futuristic a. Next to a ghtly lit aluminum sk are several king spaces, each which sports a k black-and-blue tricity-charging ion. Palo Alto lif.)-based IDEO eves this is the e where an ac- , middle-aged nan named Kilo ht someday rou- ly pull in, pay at kiosk with a lit or ATM card, a lightweight tic-covered induc- paddle charger her electric ve- and, returning r a couple hours opping, drive off the sunset.

he Kilo character art of one of y scenarios that designers creat- to wow both client lughes and the IDSA de- judges with their elec- vehicle-charging station. e 1991, IDEO has worked Hughes on a project to ess the daunting infra- ture needs that a shift ectric vehicles will require. Because electric cars can still travel 100 to 150 miles on a full charge, IDEO realized "filling up" will have to be incorporated the driver's everyday life. In addition to a overnight charge in your garage, you'll ble to top off in parking lots, convenience stores, shop- malls, etc., throughout the day, IDEO figures.

uman-factors experts at IDEO started by doing some research: They created several categories of people and gave them names, families, personalities, political beliefs, even hobbies and pets. As they considered various scenarios, they quickly realized that the technology of getting the electricity into the car was the easy part. Dick A. Bowman, manager of electric vehicle infrastructure at Hughes, says the crux of the matter became creating a station that was "unattended, intuitive, and nonthreatening." It was not merely a question of technology, it was one of social adaptation to new technology. That meant handling issues as diverse as graffiti, fears of getting shocked, inclement weather, and the safety of, say, a woman taking out her wallet in an unattended lot.

The scenario exercises "opened our eyes to all kinds of concepts we never thought about," says Bowman. The multifaceted design of the station speaks to many of them: If a vandal tries to snip a power cable, for example, special imbedded sensors are triggered and cut off the juice before anyone is fried. The kiosk's odd shape offers protection from rain—and provides space for advertising. Says IDEO designer Peter Skillman, who, with another designer, Mark Biosotti, handled much of the hardware design: "No paradigm existed for this—so we defined it." Welcome to the new world of product design.

BUSINESS & INDUSTRIAL PRODUCTS
GOLD

By Joan O'C. Hamilton in Walnut Creek, Calif.

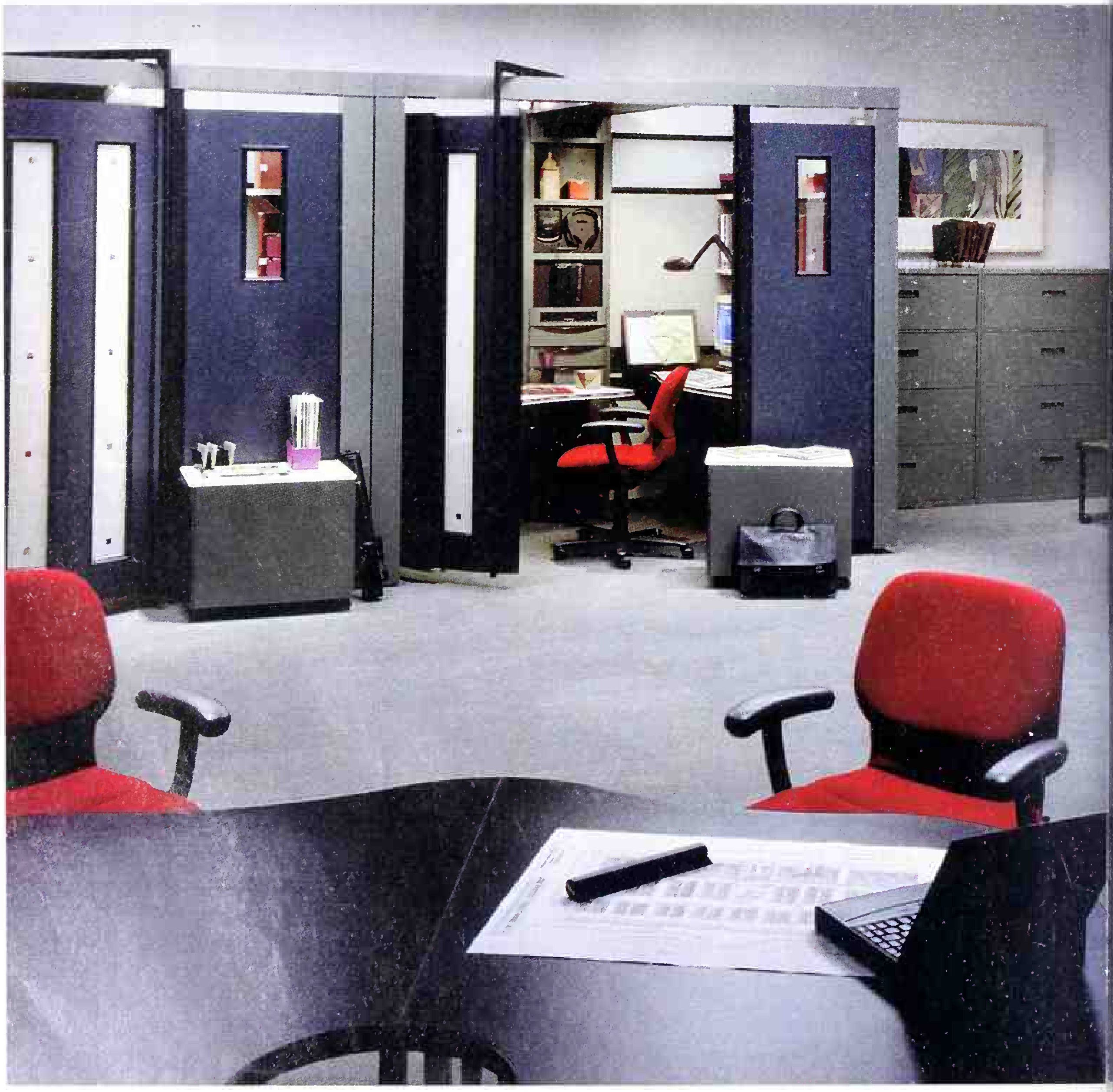
KEEP IN TOUCH, AND KEEP YOUR SPACE

PERSONAL HARBOR WORKSPACE
***DESIGNER:* STEELCASE**

Nice Conestoga you've got there. Dave Lathrop, Steelcase Inc. project leader, compares the company's Personal Harbor Workspace to the wagons that trekked across the West to California and Oregon a hundred-plus years ago. Each individual Conestoga in the wagon train provided privacy for a family, but at night the wagons would encircle the campsite, allowing the families to team up for protection while they ate and rested. So, too, does the Personal Harbor act as an individual workstation that surrounds and supports a common area, this time for work.

It's a good analogy, except this is no ordinary wagon train. The Personal Harbor brims with cutting-edge design ideas. When closed it sliding curved door frosted-glass windows, g complete visual, acoust and territorial privacy. It tains 48 square feet, is 7 inches high, and comes w partial cei Two work faces, one stationary and other mobile, are the f points of the space. A to of shelves provides additi book and binder storage.

FURNITURE
GOLD



o keep clutter off the k surfaces, the telephone, lves, drawers, and finger-filing system are vertical-stacked in what is aptly ed a totem. A control pan- ts the individual employ- djust lighting and ventila- . The unit has a special e for accessories such as s, paper clips, and coffee , and one part of the wall . floor-to-ceiling marker rd. Optional: an audio package that includes a CD player with wireless headset. The price, depending on options, is $5,000 to $7,000 per unit, a bit higher than competing prefab workspaces.

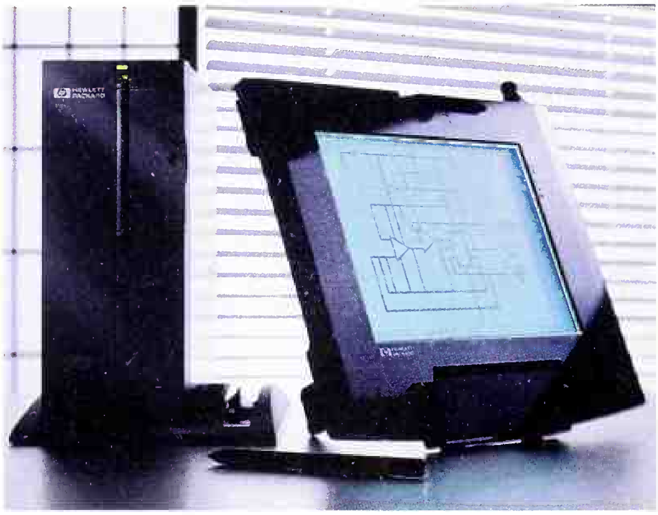
The space in front of the Personal Harbors, quaintly called the front porch, allows workers to expand their individual activities—temporarily or long term—by using carts, mobile tables, guest chairs, cabinets, or screens.

The designers at Steelcase, based in Grand Rapids, won a Gold Award not just for Personal Harbor's aesthetics, but for the way the product accommodates the changes in the way people work. Teams are becoming a mainstay of the work environment, and a group of Personal Harbors, combined with a common area including a large table and chairs, easily lets people think together or alone. Steelcase designers say workers can create the environment that works for them.

Lisa Smith of SmithChororos, a New York product designer and a judge in the competition, says the workstation "serves the office in a beautiful way. People can work in a group or go off into personal space."

Designers spent four years researching the changing nature of office work and building models before developing the product. Steelcase boasts that one customer—Hybritech Inc., a San Diego biotechnology firm—cut the time it takes to bring a new product to market from 14 to 4 months after its engineers started working in Personal Harbors. Who said you can't build a better wagon train?

By Marti Benedetti in Detroit



SHARE AND SHARE ONLINE

HEWLETT-PACKARD OMNISHARE
***DESIGNER:* HEWLETT-PACKARD**

No sooner had Hewlett-Packard Co.'s OmniShare, an interactive document-conferencing product, won a gold design award than bad news came. Pascal Baudot, the Grenoble, France-based designer, got a call from HP headquarters: After eight months on the market, the machine would be discontinued on June 1. The reason? Poor sales. OmniShare's price tag—$1,500 after steep discounts—apparently turned off customers. It was an example of price defeating design excellence.

BUSINESS & INDUSTRIAL PRODUCTS
GOLD

Current alternatives to the problem of hashing over documents with far-flung clients are pretty clunky. You can try to describe changes over the phone or trade an endless stream of faxes. Personal-computer software programs such as Intel ProShare and Lotus Notes allow documents to be shared on each person's screen, but they can be clumsy and can require a special phone line.

By contrast, OmniShare makes sharing documents a snap. The machine hooks up between a phone and a phone line. Two colleagues thousands of miles apart use pen pointers to bring up files loaded from a fax or PC, move them around, and annotate them. They can see each other's changes instantly.

When HP started the OmniShare project in 1992, research indicated that many architects, lawyers, and other traveling pros didn't use PCs. That has changed. Says analyst Jeffrey Henning of market watcher BIS Strategic Decisions: "The future of document conferencing is software." Even without the OmniShare hardware, HP plans to be there. OmniShare's ideas will live on in future PC software, HP says. That may not win a design award, but it might win more customers.

By Robert D. Hof in San Francisco

TED MORRISON

THIS LAPTOP RUNS CROSS-COUNTRY

DELL LATITUDE XP FAMILY
***DESIGNER:* DELL COMPUTER**

Fresh from glory as chief designer of Apple Computer Inc.'s PowerBook laptop PC, John K. Medica's first move with Dell Computer Corp. in early 1993 was a potential career-buster. Medica persuaded CEO Michael Dell to scrap all the company's existing laptop blueprints and start from scratch. Already way behind in the notebook business, Dell would suffer $20 million in write-offs with the move. Worse, it would mean placing a huge bet on a single premium model to resurrect Dell's tarnished name.

After taking an extra six months to research customer needs, Medica's team unveiled the Latitude XP last August to rave reviews. Combining industry-leading battery-life technology with sleek ergonomics, Dell sold some 34,000 Latitudes in the fourth quarter—equal to its entire 1993 laptop sales.

The main reason for the success: designing around the latest battery technology. In search of a machine that could keep going through an entire coast-to-coast flight, Medica poured resources into a partnership with Sony Corp., his old manufacturing partner for the Apple PowerBook. The plan: to adapt the lithium ion batteries used in camcorders for the PC market. This required lots of special circuitry and software from Dell. But the effort paid off in spades. PC rivals such as Toshiba Corp. are only now introducing full-feature notebooks with lithium ion batteries, which give from five to eight hours of use between charges.

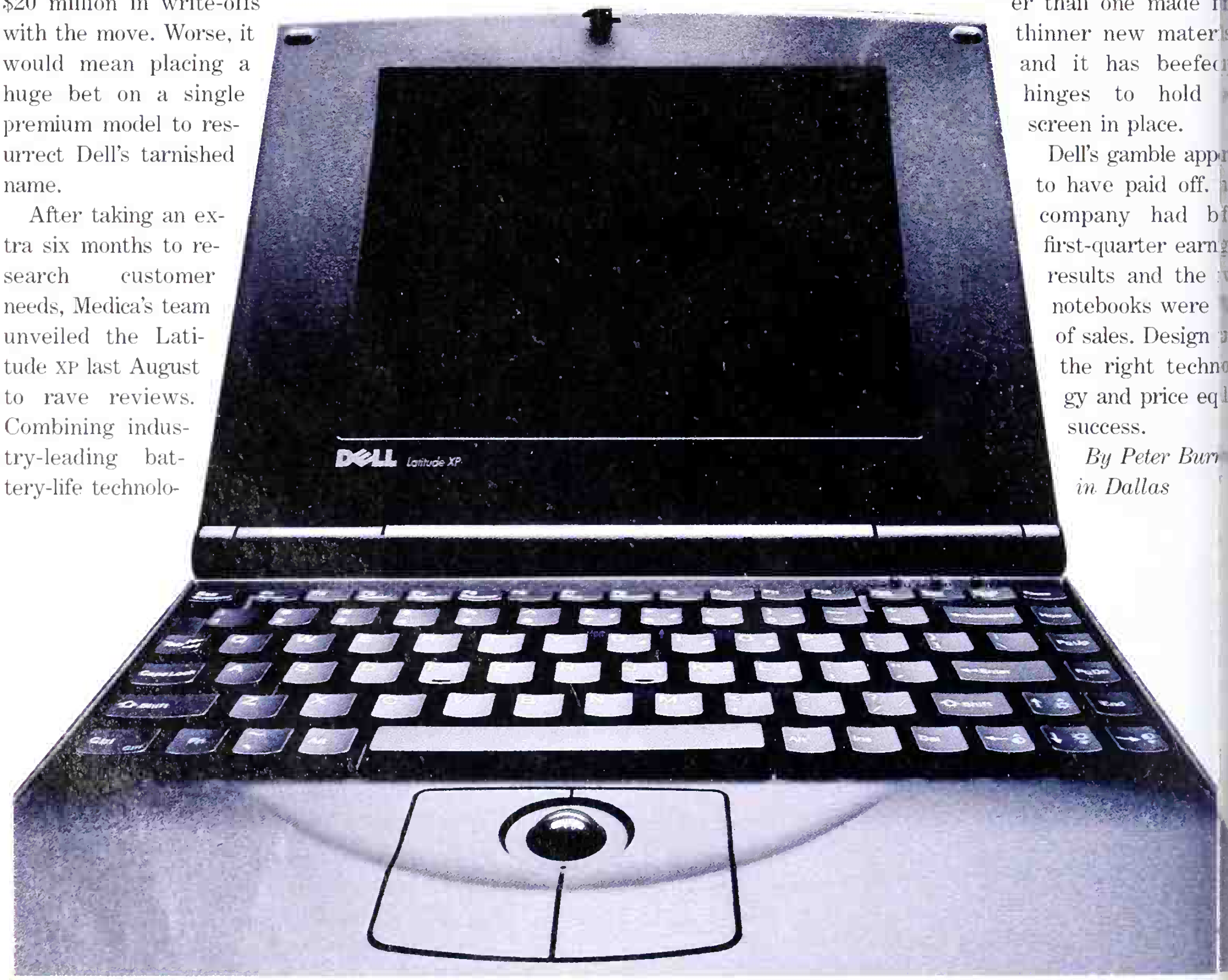
BUSINESS & INDUSTRIAL PRODUCTS
SILVER

The team also used research to improve the outside of the box. Studies showed that people don't always hold their noteboo the same way—so the de ers created oversized m buttons around a centrall cated trackball, a setup had been introduced by PowerBook. And rather easy-to-break flaps for battery and removable h drive slots, designers tached covers to these ripherals. Snap them in the job's done; there's no to close.

Because some of Dell's lier machines suffered f quality problems, design went all out for reliab and durability. The Latit has a conventional 1- thick plastic enclosure r er than one made f thinner new mater and it has beefe hinges to hold screen in place.

Dell's gamble app to have paid off. company had b first-quarter earn results and the notebooks were of sales. Design the right techno gy and price eq success.

By Peter Bur
in Dallas



VAN FOR LL SEASONS

YSLER DODGE CARAVAN & PLYMOUTH VOYAGER
***IGNER:* CHRYSLER DESIGN STAFF**

hrysler Corp.'s minivans have become something of an American icon. With 4.5 million on the road, these utilitar- family-haulers are a quintessential part of suburban life. t kind of resounding success is tough to improve on. , all too often, designers overreach and mess up a good g in their attempts to do so.

he all-new minivan, though, is nearly as much breakthrough as the boxy original that rolled in 1983. Chrysler's designers and engineers markedly roved the utility of the new vans while at the same time ing them sleekly stylish. Most surprising, perhaps, they were able to capture the road manners of a sedan. sler has "achieved a real coup, pushing the design bench- k even higher," says Charles L. Jones, head of design at x Corp. and an IDEA judge.

TRANSPORTATION
GOLD

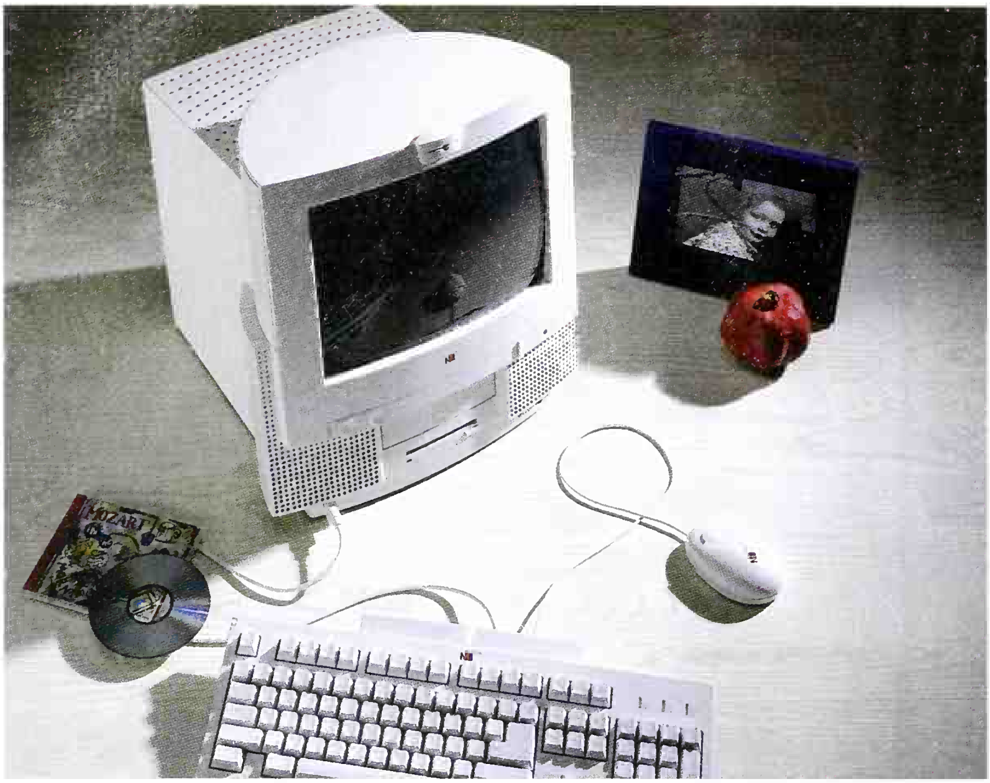
bove all, however, minivans exist to haul people and toys, tools, or materials. As such, the more room they inside, the more useful they are. Through clever use of e, Chrysler engineers significantly increased the new interior area—by more than 30%—without making much bigger on the outside. The new short-wheelbase ion is roomier inside than the old long-wheelbase model, h is nearly a foot longer. Chrysler achieved this feat by extending the windshield farther forward, pushing the wheels toward the bumpers, and adding a few inches to width and length. The door sills are 1.5 inches lower, making it easier to climb in and out.

Compared with the old vans, the new models make a quantum leap in styling, too. Chrysler designers transformed what had been essentially a box on wheels into a more rounded, pleasing shape. The body's sculpted blend of a carlike front end and cargo rear is deftly executed. The wheels' broad track lend a stable look. The van's new shape has utilitarian pluses, too: The windshield, which is four inches lower, offers better visibility, while smoother lines reduce wind noise and boost fuel efficiency.

Thoughtful details are everywhere. There's an optional sliding door on the left side, so drivers no longer need to run around the car to get kids or gear out of the back. On both doors, designers deftly hid the sliding track in the seam where steel meets window glass. Inside, the rear bench seat has tiny wheels that fold down like airplane landing gear. That makes it easy to roll the seats out the back and across the garage floor to make room for more cargo. Better yet, now a four-by-eight sheet of plywood fits neatly on top of the folded rear seatbacks. You don't have to yank out two rows of seats.

It's hard to successfully rethink a runaway success like the original minivan, but Chrysler has pulled it off. The company has given its customers a whole lot more van—for about the same price. The cheapest Plymouth and Dodge minivans will start at around $16,000 and the most deluxe Chrysler Town & Country will start at $30,000.

By David Woodruff in Detroit



GOOD DESIGN CAN'T DO IT ALL

MERIDIA INTEGRATED MULTIMEDIA COMPUTER
DESIGNER: ZIBA DESIGN

'Made in Taiwan": A lot of personal computers are. But innovative design? Hardly Taiwan's forte. Yet this year, one of IDSA's awards goes to an all-in-one multimedia computer made in Taiwan.

This product was a response to the bind many of Taiwan's high-tech companies find themselves in. They've thrived by manufacturing other people's computer boards and peripherals. But labor is no longer cheap in Taiwan, and many factories are moving to lower-cost sites in China, Malaysia, or Thailand. At the same time, the lucrative parts of the business—marketing, software, service, development, and design—are controlled by companies in the U.S., Europe, and Japan. If it wants to stay in the computer game, Taiwan has only one option: start designing and marketing its own computers. But how can a plethora of small companies afford such an expensive strategy?

About 18 months ago, George Chou, a director of the Taipei Computer Assn., came up with an answer: an alliance of Taiwan peripheral makers producing a single system with a coherent brand image. Chou brought together six companies: two monitor makers, a keyboard maker, a builder of PC motherboards, a disk-drive maker, and a producer of pen-based input tablets. Then he needed a designer to put the parts together.

All six companies were surviving on ever-thinner margins, squeezed by Western companies such as IBM, Compaq, and Apple Computer that keep demanding lower prices. To help them escape that trap, the Taiwanese government subsidized half the cost of hiring a U.S. design firm to come up with a series of products that they all could build profitably. They chose Ziba Design, based in Portland, Ore.

BUSINESS & INDUSTRIAL PRODUCTS
BRONZE

But getting the six companies to work together was rough. Each is headed by a founder and president who wanted to work directly with Ziba's founder, Sohrab Vossoughi. While the point of the project was to create a single, integrated system, each wanted its products to have distinctive features. Indeed, the IDEA award went to the computer designed specifically for Taiwan Video & Monitor Corp.

Ziba helped select a name for the system—Meridia—suggesting global reach. It then designed 10 products for the six companies, including two keyboards, two monitors, two drives, and the all-in-one computer/monitor that won a bronze IDEA award. The products share the same design "language": a simple case shape with soft curves, colorful buttons, front-facing speakers, and an indent at the top that doubles as a microphone holder.

Ziba's work highlights what can—and cannot—be accomplished with design. Although each of the six companies wanted to break into international markets with a brand of its own, the world of subcontracting is the only one they know. No sooner did they have Ziba's designs in hand than some began slipping it around to their old customers. Instead of establishing their own global identity to compete with the likes of Dell Computer Corp. and Compaq Computer Corp.—the whole point of hiring Ziba—the Taiwanese are drifting back to what they know best: selling hardware to big PC makers, who then slap on their own labels. When it comes to global business, good design is necessary but not always sufficient.

By Dori Jones Yang
in Seattle

BUSINESS & INDUSTRIAL PRODUCTS
GOLD
DEWALT
XR PACK

BETTER GRIP N HAWKING TOOLS

ALT PISTOL-GRIP DRILL/DRIVER (ABOVE)
KELIGHT (BELOW)
***IGNER:* BLACK & DECKER**

st four years ago, Black & Decker Corp. was battling
ith foreign rivals in both the professional power-tool
consumer-appliance markets. Shunning B&D, profession-
uilders and tradesmen were snapping up innovative
y-duty gear from the likes of Makita Corp., and Amer-
consumers were flocking to gadgets from Matsushita and
n.

oday, the pros are doling out their dol-
for Black & Decker products again. By
ing an ever-expanding line of well-
gned power tools and marketing them
r the trusted yet all-but-abandoned De-
name, B&D is back—a solid No. 1 in
fiercely contested $250 million market
rofessional cordless drills. One example
hy it is prevailing: the new DeWalt
less, pistol-grip drill/driver, a gold-med-
inner.

ot only does the drill/driver look all
ness, it also is comfortable enough for a
enter who wields it all day. Stressing
nomics, B&D designers gave the tool a cushion-grip plastic handle thin enough to grasp easily but wide enough for a battery pack that makes the tool cordless.

The designers faced some hurdles beyond "grippability" when they set out on the project in 1991: The drill had to be compact and simple to lug around, but it had to house a motor powerful enough for a pro. The designers also wanted a better motor than those available off-the-shelf. Lastly, the drill had to have a list price of $170 to $200 and be marketable globally.

Splitting the work helped. Designers at the company's Spennymoor plant in northern England handled the motor and transmission development, while engineers at the company's power-tool design center in Towson, Md., handled the battery pack and controls. That way, the company not only spread out development costs, but it also generated internal support for the product in different parts of the company.

So far, pros are warming to the tool's flexibility. They can hold the drill like a handgun with their index fingers on the trigger. Or, to apply more pressure, they can wrap a hand around the back end and squeeze the trigger with their middle fingers. It's this kind of flexibility that's allowing B&D to regain prominence in power tools.

When it comes to flexibility, nothing beats B&D's wildly successful SnakeLight. In a market where the average price is just $6, consumers are paying $30 for a product that lets them work "hands-free" under car hoods, under sinks, or in a closet.

The key to the SnakeLight is its bendable, tubular body, which can be coiled cobralike on the ground, wrapped around a pole, hung over a sink, or even draped around your neck while you work. B&D is marketing it in three forms: a white-colored body for home, a black shop model with a mounting bracket, and a red model for cars, which runs off a cigarette lighter. Form couldn't suit function any better.

CONSUMER PRODUCTS
GOLD

By Joseph Weber in Philadelphia

(TOP) TED MORRISON

DIGITIZING THAT CLUTTERED DESK

VISIONEER PAPERMAX
***DESIGNER:* GVO**

Newspaper clippings, dog-eared business cards, glossy brochures, handwritten recipes, or a child's prized artwork: There's value in every one, but together it's just a lot of paper cluttering our desks, drawers, and counters. Entrepreneurs at Visioneer Communications Inc. looked at the same mess differently, however. What they saw was the opportunity for a breakthrough product—an inexpensive desktop scanner into which all of those bits of paper could be fed, with their data or images captured electronically.

The idea was to capture text and simple images, not produce professional artwork, so the device wouldn't require the precision or flat-bed design of a graphic-artist's scanner. But it would need to be compact and easy to use.

The design wizards at GVO Inc. in Palo Alto, Calif., have made all of this happen in PaperPort (originally known as PaperMax). It has a footprint no bigger than a box of Reynolds Wrap but has the potential to snag the value off the page and send the skeleton to the recycling bin.

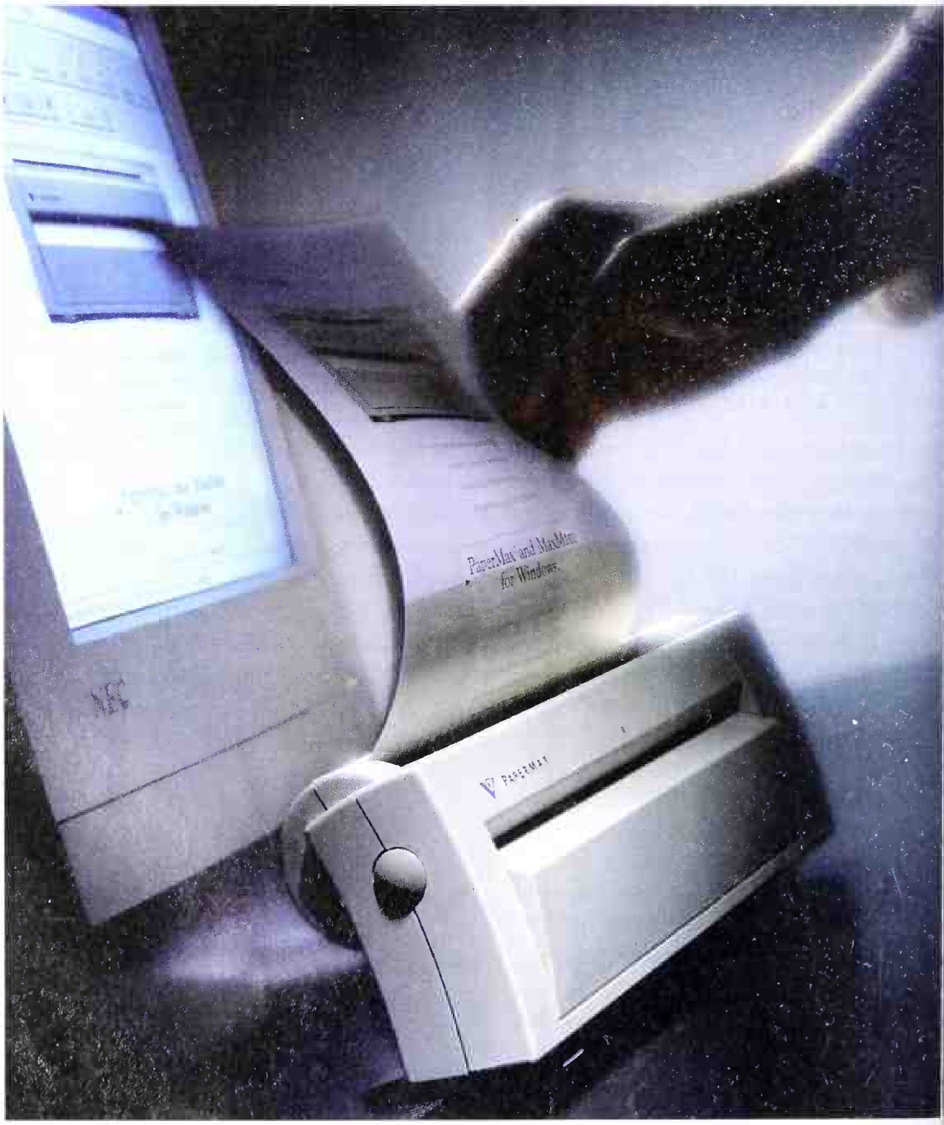
Within a few minutes of setting up PaperPort, you start imagining a little voice whispering, "Feed me." The device sits best between the keyboard and a PC or monitor. There's no on/off switch: The machine switches on automatically when you put the edge of the paper into the slot. Immediately, an image of the scanned item pops up on screen, a nifty software trick that lets the user enjoy watching the computer digest it.

BUSINESS & INDUSTRIAL PRODUCTS
SILVER

PaperPort is compact, minimalist, and inviting to use. Putting a curved face forward, PaperPort throws out its little chest to receive your orders, sucks in the page through its curved path, and then spits the scanned paper right back at you. If the item that is to be scanned is delicate, or precious (a birth certificate or photo), a quick shift of the curved top lid creates a straight path for safer scanning. Once it has been scanned, the data can easily be filed, printed, faxed, or E-mailed. Says GVO's Michael Barry: "This is going to help your life. t's not a statement about he power of technology."

Retailing for about $4 PaperPort has been a big for three-year-old Vision IDSA judge Dallas Grove Palo Alto Design Inc. sa PaperPort's simplicity a precursor: "It's a plug-a play kind of product. W just beginning to see that computer products] beca the technology is getting phisticated enough." Sop ticated enough to be simp

By Joan O'C. Hamilto
Palo Alto, Calif.



DANDY NCYBER-PEDIA

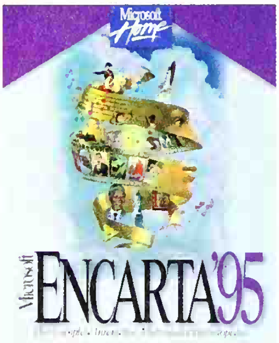
ROSOFT ENCARTA
***IGNER:* MICROSOFT**

'he way William Flora saw it, Microsoft Corp.'s Encarta was a software program that looked too much like, , a software program. So Flora took on the challenge of esigning the interface on Microsoft's multimedia CD-ROM yclopedia. In the process, he made the program a lot e versatile and pleasing to use.

CKAGING & GRAPHICS
ILVER

For starters, the original 1993 version of Encarta had too much ter on the screen. It looked more like a serious spread- t than a warm-and-fuzzy consumer title. The program ained dozens of buttons, distracting users from its main s—to help them uncover the nuggets of content they led to tackle school papers or other research chores.

he newly designed interface on Encarta '95 was meant to lify and not overwhelm the content, a great deal of h was fresh information (about half the articles in Encarta were revised in the 1995 version). Flora's team cut the number of buttons in half. To call up additional information or functions, they added "fly-out" menus that swoosh down as needed. For example, if you place the cursor over "areas of interest" at the top of the screen, a menu appears with specific choices, such as "life sciences" or "performing arts."



Another consumer-friendly move: Designers switched to an understated, less-vibrant palette that is easier on the eyes. And users can change the size of article text or choose a flexible screen layout that lets them display—or hide—article outlines.

Microsoft also improved Encarta's searching capability. The program's Pinpointer lets people do searches based on words, geography, subject, time, and the type of media displayed (sound or video). Now, you can narrow references on Greek mythology down to a picture and spoken line from Sophocles' *Oedipus Rex*—or get a different take on the play from Sigmund Freud.

By Edward Baig in New York

1995 IDEA WINNERS

BUSINESS & INDUSTRIAL PRODUCTS

S/400 Advanced Series IBM, ster, Minn., for IBM, Armonk, N.Y.
y Gen 5 Storage Server Mielke t Design, San Jose, Calif., for ium Strategy, Milpitas, Calif.
hare Hewlett-Packard GPCD Divi- r Hewlett-Packard, Grenoble,
Vehicle Charging Station IDEO t Development, Palo Alto, Calif.; ighes Electronics, Torrance, Calif., ro Design, Irvine, Calif., for ighes Electronics
Design Process and Language Central, Columbus, Ohio, and Equipment, New Bremen, Ohio, own Equipment
ckpicker Crown Equipment, New n, Ohio; IDG, Columbus, Ohio, and ca, Miamisburg, Ohio, for Crown nent
Grip Drill/Driver Black & Decker, , Md.

R

tylewriter 2400 IDEO, San Fran- Calif., and Apple Computer, Cuper- alif., for Apple Computer
Ultra Portable PC System Digital nent, Maynard, Mass., for Digital nent, Acton, Mass.
e XP Family Dell Computer, Aus- ., and Design Edge (Advanced eplicator only), Austin, Tex., for omputer
ook 540c Apple Computer, Cu- , Calif.
Desktop Voice Processor Dicta- Stratford, Conn.

PocketPro Design Continuum, Boston, and Kopin, Taunton, Mass., for Kopin
Aeropoint Aeroduet Gingko Design, San Francisco, Calif., for Creative Technology, Milpitas, Calif.
Natural Keyboard Ziba Design, Portland, Ore., and Microsoft, Redmond, Wash., for Microsoft
PaperMax GVO, Palo Alto, Calif., and Visioneer, Palo Alto, Calif., for Visioneer
Quad™ Latch Southco, Concordville, Pa.
Visual Symbol Library Clement Mok Design, San Francisco; Underwood Photography, San Francisco, and Mario Parnelli Photography, San Francisco, for CMCD, San Francisco

BRONZE

CruisePad Lunar Design, Palo Alto, Calif., and Zenith Data Systems, Buffalo Grove, Ill., for Zenith Data Systems
Multimedia Computer Ziba Design, Portland, Ore., for Taiwan Video & Monitor, Taipei, Taiwan
Show Station Document Conferencing Projector Bleck Design Group, Chelmsford, Mass., for Polycom, San Jose, Calif.
Colortron IDEO, Palo Alto, Calif., for Light Source, Larkspur, Calif.
Proximity Reader Studio Red, Redwood City, Calif., for Westinghouse Security, Santa Clara, Calif.
Wave Design Continuum Italia, Milan, Italy, for Siel S.p.A., Trezzano Rosa, Italy
Palmball frogdesign, Sunnyvale, Calif., for Logitech, Fremont, Calif.
Smart Business Card Reader SG Hauser Associates, Calabasas, Calif.; Seiko Instruments USA, San Jose, Calif., and Creative Sales, Santa Cruz, Calif., for Seiko Instruments USA
SP-5000 Product Insight, Acton, Mass., for Curtis Manufacturing, Seacaucus, N.J.

CONSUMER PROOUCTS

GOLD

Jeep Portable Stereo System Human Factors Industrial Design, New York, for Kash'n Gold, Ronkonkoma, N.Y.
Double Colander Tupperware North America, Orlando
flossAwl Brandir International, New York, and Lonczak Design, New York, for Brandir International
Playscene Play Designs, New Berlin, Pa.
Speedray Kickboard Design Axis, Columbus, Ohio, for Zura Sports, Columbus, Ohio
SnakeLight Black & Decker, Shelton, Conn.
1-2-3 Baseball Playskool, Pawtucket, R.I., for Hasbro Toy Group, Pawtucket, R.I.

SILVER

Sensa Pen Emerson Johnson Mackay, North Hollywood, Calif., and Willat Writing Instruments, Los Angeles, for Willat Writing Instruments
2 Line Personal Information Center 882 Henry Dreyfuss Associates, New York, and AT&T Bell Lab, Indianapolis, for AT&T Consumer Products, Parsippany, N.J.
Bedroom Telephone KEK Associates, Rochester, N.Y., and Thomson Consumer Electronics, Indianapolis, for Thomson Consumer Electronics
CallBook 220 Design Continuum, Boston; Momentum, Boston, and MPS Designs, Palo Alto, Calif., for Momentum
Revolution Morphix Design, Corona Del Mar, Calif., and Quickie Designs, Fresno, Calif., for Quickie Designs
Snapware Airtight Dry Food Storage Mayercheck Design, Irvine, Calif., and Coast Product Development, Brea, Calif., for Flotool, Tustin, Calif.
Storage Locker Product Insight, Acton, Mass., and Tucker Housewares, Leominster, Mass., for Tucker Housewares
Lunch Pack Ziba Design, Portland, Ore., for Youth Plastic Works, Taipei, Taiwan
Air Max Nike, Beaverton, Ore.
Bellistic Helmet Bell Sports, Cerritos, Calif., for Bell Sports, Scottsdale, Ariz.
Flashcast SP 2000 Integrated Spin Reel IDEO, Palo Alto, Calif., and Berkley Outdoor Technology Group, Spirit Lake, Iowa, for Berkley Outdoor Technologies
Terramoto Cycling Helmet Design Continuum, Boston, and Giro Sports, Soquel, Calif., for Giro Sports
Double Header Flashlight Booty Design Associates, Chicago, and Artfield Mfg., Hong Kong, for PHCRM Concept & Design, Chicago
First Alert Fire Escape Ladder Joss Design Group, Chicago, and BRK Brands, Aurora, Ill., for BRK Brands
Push Button Start Gas Trimmer Carroll Gantz Design, Pittsburgh; Homelite, Charlotte, N.C.; and Joel Wittkamp Design, Morrisville, N.C., for Homelite
Cool Tools Hasbro Toy Group/Playskool, Pawtucket, R.I., for Hasbro Toy Group, Pawtucket , R.I.
Pocket Arcade RKS Design, Canoga Park, Calif., for SEGA of America Toy Div., Redwood City, Calif.

BRONZE

Steelmaster® Contours Desk Accessories Joss Design Group, Chicago, Atapco Office Products, St. Louis, for Atapco Office Products
Brainchild ION Design, Edgewater, N.J., and Logix, Denville, N.J., for Brainchild, Naples, Fla.
Digital Cellular Phone Designworks/USA,

Newbury Park, Calif., for Nokia Mobile Phones, Bracknell Berkshire, U.K.

Proscan Line Thomson Consumer Electronics, Indianapolis

Sprint Phone Ziba Design, Portland, Ore., and Sprint, Industrial Airport, Kan., for Sprint

Revere Excel Teakettle ECCO Design, New York, for Corning, Corning, N.Y.

TempreServe Insulated Food Server Aladdin Industries, Nashville

Community Loft Community Playthings, Rifton, N.Y.

Range Check Nursery Monitor Design Continuum, Boston, and Gerry Baby Products, Denver, for Gerry Baby Products

Blackburn Bicycle Pump Bell Sports, Los Gatos, Calif., for Bell Sports, Scottsdale, Ariz.

Workstand Bell Sports, Los Gatos, Calif., for Bell Sports, Scottsdale, Ariz.

Tape Dispenser Polivka Logan Design, Minneapolis, for 3M Corp. Consumer Stationery, St. Paul, Minn.

Three Hole Binder Punch Thompson Design, Stratford, Conn., and NAMI, Bridgeport, Conn., for Hunt Boston, Philadelphia

VersaPak ⅜-Inch Drill Black & Decker, Towson, Md.

Workmate Shopbox Innovations & Development Inc., Edgewater, N.J., and Black & Decker, Towson, Md., for Black & Decker, Shelton, Conn.

4-Way High Chair Today's Kids, Dallas, for Today's Kids, Butler, Pa.

Kidboard Contour Design, Minneapolis, for Kidboard, Edina, Minn.

Radio Control Raceway Fisher Price Toys, East Aurora, N.Y.

DESIGN EXPLORATIONS

GOLD

Dove and Baby Dove Fitch, Boston, and Digital Equipment, Maynard, Mass., for Digital Equipment

LCD Color Monitor Design Edge, Austin, Tex.

Sign Post 101 AT&T Global Information Solutions, Dayton, and Point, Burlington, Vt., for AT&T Design Group, Dayton

Shared Conceptual Model Design Process Apple Computer, Cupertino, Calif.

Atlantic Chrysler, Auburn Hills, Mich., for Chrysler, Highland Park, Mich.

SILVER

KUDO Crafters Clamp Steve Visser, IDSA, and Kyle Bennett, West Lafayette, Ind.

Research for Hand Held Game Controllers IDEO, Palo Alto, Calif., for Sega of America, Redwood City, Calif.

Plymouth Backpack Chrysler, Auburn Hills, Mich.

BRONZE

Eye 2 Eye Meg Hetfield, IDSA, San Jose, Calif.

Soldier Portable Generator Carlson Technology, Livonia, Mich., for US Army Communications Electronics Command, Ft. Belvoir, Va.

Helio Remote Thomson Consumer Electronics, Indianapolis

Tower CD Changer Thomson Consumer Electronics, Indianapolis

E-Lamp IDEO, Palo Alto, Calif., for Diablo Research, Sunnyvale, Calif.

Personal Medical Electronics Design Study Becton Dickinson Vascular Access, Sandy, Utah

Alternative Keyboard Research The Joyce Institute, Seattle; Microsoft, Redmond, Wash., and UCSF Ergonomics Lab, Berkeley, Calif., for Microsoft

ENVIRONMENTAL DESIGNS

GOLD

ESEO Federal Credit Union Elliott and Associates, Oklahoma City; Eudaley Engineers, Oklahoma City; Allen Consulting, Norman, Okla.; and Smith & Pickel Construction, Oklahoma City, for ESEO Federal Credit Union, Oklahoma City

In-Store Water Dispenser Ashcraft Design, Los Angeles, and Boyd Communications, Los Angeles, for Glacier Water Services, Carlsbad, Calif.

JBL On-Board Trade Show Fitch, Boston, for Harman Consumer Group, Woodbury, N.Y.

SILVER

The Natick Mall Arrowstreet, Somerville, Mass., for Homart, Chicago

Lila Acheson Wallace Wing of Mammals and Their Extinct Relatives Ralph Appelbaum Associates, New York; Severud Associates, New York; Altieri Sebor Wieber Consulting Engineers, Norwalk, Conn.; Electrosonic, Minneapolis; and H.M. Brandston & Partners, New York; for American Museum of Natural History, New York

Design Studio and Showroom Robert Luchetti Associates, Cambridge, Mass., for Guilford of Maine, Guilford, Me.

BRONZE

KPMG Peat Marwick Corporate and Public Interiors The Hillier Group, Philadelphia, for KPMG Peat Marwick, Montvale, N.J.

A New Agenda for Human Well-Being Hixon Design Consultants, New York, for United Nations, New York

EMAX Exhibitgroup, Roselle, Ill.

Landscape Forms Exhibit Kane Design Studio, San Francisco, for LFI/Landscape Forms, Kalamazoo, Mich.

FURNITURE

GOLD

Leveler Base Falcon Products, St. Louis

Personal Harbor Workspace Steelcase, Grand Rapids, with Robert Luchetti Associates, Cambridge, Mass., for Steelcase

Universal Cassette Thetford, Ann Arbor, Mich.

SILVER

Aeron Chairs Don Chadwick Associates, Santa Monica, Calif., and William Stumpf & Associates, Minneapolis, for Herman Miller, Zeeland, Mich.

Avian Chair Thomas J. Newhouse—Design, Grand Rapids, Mich., for Phoenix Designs, a Herman Miller Company, Zeeland, Mich.

Compass Filing and Storage System Thomas J. Newhouse—Design, Grand Rapids, for Meridien, a Herman Miller Company, Spring Lake, Mich.

Propeller Table Trapezoid Emanuela Frattini, New York, for The Knoll Group, New York

Barefoot Beagle Mats, South Pasadena, Calif., and TMS, Culver City, Calif., for Beagle Mats

Ceiling Runner Fire Trak, Kimball, Minn.

Snap Ease Computer Desk Patton Design, Irvine, Calif., for Rubbermaid, Wooster, Ohio

BRONZE

Improv Chair Tom Edwards, IDSA, Spring Lake, Mich., for Haworth, Holland, Mich.

Advent Door Collection Teague Associates, Redmond, Wash., and Simpson Door, McCleary, Wash., for Simpson Door

LINCS Under Cabinet Lighting KDA Design, Addison, Ill., and Alkco, Franklin Park, Ill., for Alkco Lighting

MEDICAL & SCIENTIFIC EQUIPMENT

GOLD

Blood Gas and Critical Analyte System Ciba Corning Diagnostics: a Chiron Business, Medfield, Mass.; Herbst Lazar Bell, Cambridge, Mass., and Adriaansen Design, Boston, for Ciba Corning Diagnostics

Force Series Microcentrifuge Design Continuum, Boston, and Denver Instrument, Arvada, Colo., for Denver Instrument

Life Sensing Instrument TM-8 Ratio Design Lab, Atlanta, for Life Sensing Instrument, Tullahoma, Tenn.

SILVER

AutoGuard Becton Dickinson Vascular Access, Sandy, Utah

Personal Syringe Needle Disposal Product Whitelight Design, Norcross, Ga., and Q-Care International, Marietta, Ga., for Q-Care International

Multimeter Fluke, Everett, Wash.

BRONZE

Computed Anatomy ION Design, Edgewater, N.J., and Computed Anatomy, New York, for Computed Anatomy

ViewPort ION Design, Edgewater, N.J., for Control Instruments, Fairfield, N.J.

VWR pH/ISE Products ATI Orion, Boston, and VWR Scientific, West Chester, Pa., for ATI Orion

Cell Saver 5 Design Continuum, Boston, and Haemonetics, Braintree, Mass., for Haemonetics

Endo Stitch United States Surgical, Norwalk, Conn.

Pistol Grip Laparoscopic Handset Design Continuum, Boston, and Valleylab, Boulder, Colo., for Valleylab

Surgical Laser Bridge Design, San Francisco, and Indigo Medical, Palo Alto, Calif., for Indigo Medical

Versipower Plus Nagy Design, San Pedro, Calif., and Hall Surgical, Carpinteria, Calif., for Linvatech/Hall Surgical, Largo, Fla.

PACKAGING & GRAPHICS

GOLD

Sparkling Ice Hornall Anderson Design Works, Seattle, Wash., for Talking Rain, Preston, Wash.

interact: American Center for Design Journal IDEO, San Francisco, and Tanagram, Chicago, for American Center for Design, Chicago

SILVER

Elements Paper Designframe, New York, and Strathmore Paper, Westfield, Mass., for Strathmore Paper

Chemistry Controls Packaging System Ciba Corning Diagnostics Corp.: a Chiron Business, Medfield, Mass., and Elizabeth Resnick Design, Chestnut Hill, Mass., for Ciba Corning Diagnostics

Scotch Select Series Fitch, Worthington, Ohio, for 3M, St. Paul, Minn.

Trainer Packaging Alexander Isley Design, New York, for Cycle-Ops Products, New York

Disk-go Portable Disk Folio Susan Scior, Brooklyn, N.Y., for Traffic Works, Huntington Park, Calif.

IntraAortic Balloon Catheter & Packaging Gunn Associates, Boston, and St. Jude Medical, Cardiac Assist Div., Chelmsford, Mass., for St. Jude Medical

Encarta Microsoft, Redmond, Wash.

Her Heritage CD-ROM Haywood & Sullivan, Quincy, Mass., for Pilgrim New Media, Cambridge, Mass.

The Cartoon History of the Universe
man Code, Austin, Tex., for Putnam
New Media, Reston, Va.

BRONZE

Cycling Jersey RKS Design, Canoga Park, Calif.

ThinkPad Out-of-Box Packaging IBM
monk, N.Y.; Hughes Design Group,
ton; Dynamic Diagrams, Providence
Lonnie Sue Johnson, Kent, Conn., f
IBM

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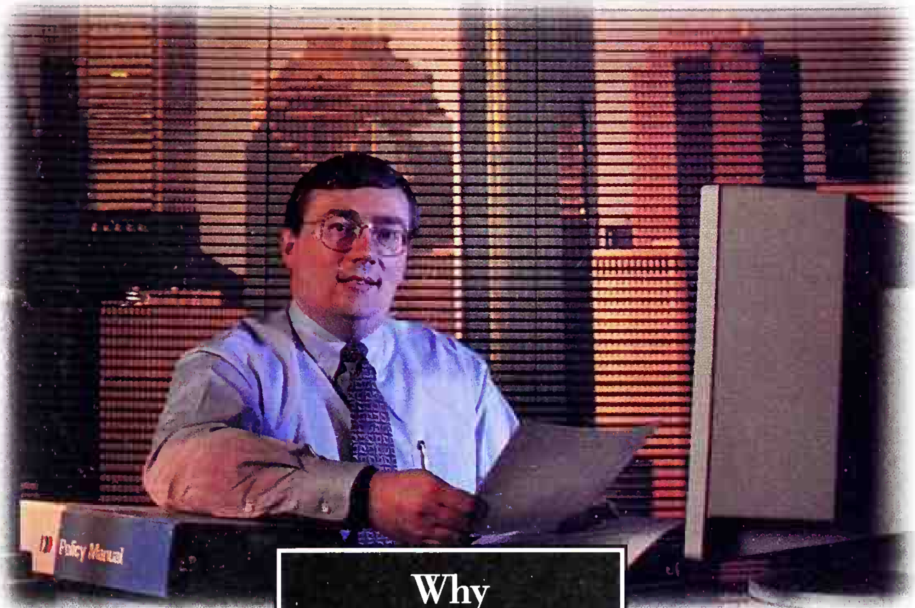

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The Means to Make Better Decisions

Providing the means to deliver accurate and timely information to improve work processes and make better business decisions is the job of George Alameda, Chevron U.S.A. Production Company's Manager of Information Technology.

The company is using the SAS System to help with enterprise-wide information delivery. "Our mission is to make financial, operational, and reservoir data available in an easy-to-use format to all the asset teams at work in CUSA Production Co.," says Alameda. "We've found the SAS System is a superior solution for analyzing data, turning data into useful metrics, and guiding our cross-functional teams toward improved work processes."

One team, in CUSA Production's Western Business Unit, is tracking the profitability of individual wells. "It's a tremendously difficult task to optimize our field operations for maximum profitability," says Alameda.

"With the SAS System, we can integrate large amounts of data and build a picture to compare one field against another and challenge our asset teams to identify and share best operating practices."

Reaching for the Best

Alameda looks forward to extending the use of the metrics and performance monitoring data to employees trying to improve their work processes. He admits his vision is far reaching, but so is the SAS System. "Our challenge is to be better than the best," he concludes, "and the SAS System is helping us reach that goal."

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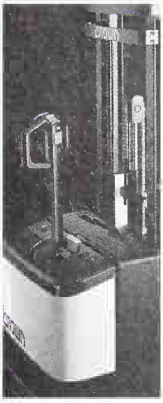

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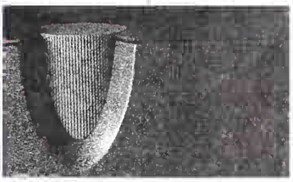

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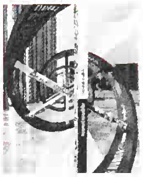

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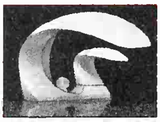

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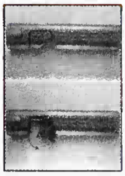

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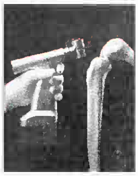

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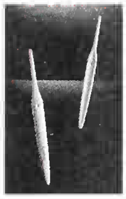

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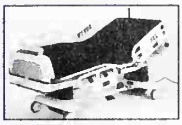

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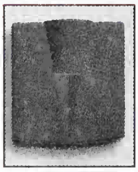

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says he'll make needed chan s

INSURANCE

THE FLOODWATERS RISE AROUND AETNA

Despite overhauls, profits are off–as the industry shrinks

"I'm very much a ready-aim-fire guy," says Ronald E. Compton, chief executive officer of Aetna Life & Casualty. "I am going to change what I can see needs changing." Compared with former Aetna CEOs who ran the Hartford insurer unchanged for decades, Compton, 62, has been a dervish, leading a series of restructurings and "strategic reviews" over the past five years.

Yet all that hasn't much helped the country's largest publicly owned insurer. Excluding special charges and capital gains and losses, 1994 earnings were no better than in 1990, when Compton started restructuring. Last year's profits represented a return on equity of 7.5% vs. 13.6% for the industry. Excluding catastrophe losses, 1995's first-quarter results were nearly the same as 1994's. "The company is still unable to generate a steady stream of growing earnings," says Peter Azcue of Value Line Inc.

Aetna's property and casu
business is producing middlin
sults. Potentially crippling cl
for environmental liability con
to dog the company. Aetna's
has been strong lately, but
lysts attribute that to com
statements that it may soon
tify the cost of those claims.
the stock has trailed most
major insurers' since April,
Aetna's is up just 24%, while
dard & Poor's multiline insu
index has risen 69%.

BREAKUP? Time may be run
out for Aetna. The industry is
solidating fast. Travelers fell
to financier Sanford I. Weill
years ago, insurer Contin
Corp. was bought by CNA Fina
earlier this year, and Ker
agreed in April to a buyout
Zurich Insurance Group. Wit
some big improvements, A
could face a similar fate or,
likely, drastic restructuring
breakup. Industry insiders say
na has done an analysis of its bre
value. Compton, a 40-year Aetna
ran, won't comment on the comp
plans. But he does say: "The fac
anybody—a board or a CEO—is g
to have to consider anything."

Compton's own position may no
quite rock-solid. Aetna's board cu
1994 bonus 45%, from $550,00
$300,000, while his salary remained
at $775,000. Four other top execs
their bonuses slashed. A more signif
sign of a possible power shift was
arrival, on Feb. 6, of Richard L.
ber, 58, as vice-chairman for strat
and finance, a new position.

Huber, whom the company
Compton recruited, is a tough, cold
make-waves operator with a backgr
in banking and on Wall Street—o
several bankers who have rece
moved into senior insurance posi
(page 111). Formerly Continental I
Corp.'s vice-chairman, Huber led a
structuring at Continental before
bank's $2 billion sale to Bank of Ar
ca. "We needed an industrial-stre

What Aetna Needs to Fix

ENVIRONMENTAL LIABILITY	HEALTH CARE	PROPERTY-CASUALTY	REAL ESTATE
Mass of claims stemming from coverage written decades ago needs to be quantified. Possible charge: $1 billion.	Up to $200 million must be spent annually for the next few years to build a network of managed-care providers.	Expenses must be trimmed further, and loss ratios must be reduced at this under-performing unit.	The $13 billion real estate portfolio mus continue to be reduc About 19% is conside troubled.

ancial and strategic mind,” says mpton. Thomas C. Theobold, a former irman of Continental, says Huber is t a traditional insurance executive. I w it as a very positive sign for Aet- to have hired him. He brings a fresh nd. He looks very aggressively at at makes money and what doesn't.” ber leaves no doubt that he thinks tna has been a subpar performer. ile Aetna has many choice assets, ber says, “some of them haven't been rked nearly hard enough.”

No matter how their relationship ts out, Compton and Huber have ir work cut out for them. Environ- ntal claims are a top priority. Aetna eady has reserves of $436 million for ential claims, but analysts believe additional hit could reach $1 billion wipe out most—if not all—of 1995's ected earnings of $660 million.

he company also faces fresh chal- ges to its core health-care franchise. alth care contributed 75% of profits year. Now, Aetna has to compete n national health-maintenance organ- ions and other providers—and it's faring well in price comparisons. ey're a top-tier competitor,” says en Darling, who manages health-care nning for Xerox Corp. “But they've led to be at the high end of costs.” na is trying to cut them by shifting lth-care-plan members to managed . But building a network of provid- would cost about $200 million, ac- ling to James W. McLane, head of na Health Plans. Compton says nings in the health-care business will haved 15% this year.

OBLEMS BEHIND US.” That means lackluster property-casualty divi- , which earned just $60 million in 4 on $5.3 billion in revenues, will e to shine this year. Gary G. Bena- head of that operation, managed a 0 million earnings swing in Aetna's national business before taking over perty-casualty in late 1993. He has ady cut annual expenses by $120 on and cut over 2,000 jobs, while ing the underwriting focus away n volume to profitability. But proper- asualty lost more than $200 million ach of the previous two years, and sector of the industry continues to er from fierce price competition.

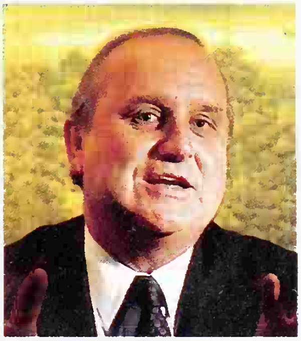
n the plus side, Aetna is cleaning up nce-embattled pension and life-in- nce business. The company took an million charge in 1994 for losses ciated with guaranteed investment racts. Also, it set up a $1.3 billion rve for future losses. But sales of nsurance were up 67% in 1994, and ife and annuity business saw profits 43%, to $159 million. Aetna has tled its portfolio of troubled real estate and mortgages to $13 billion, down from $23 billion four years ago. “We have put the bulk of our real estate problems behind us,” says Executive Vice-President Daniel P. Kearney.

Overall, Aetna is working on pruning low-performing businesses. The insurer recently announced plans to sell its Aeltus investment-management subsidiary. And the company is trying to bolster businesses it runs well, such as health care and life insurance. But with cash-hungry investors having already gobbled up some of Aetna's rivals, the pace of improvement needs to quicken. The market doesn't tolerate inefficiency for long. Just ask Travelers. Just ask Kemper.

By Tim Smart in Hartford, with Richard A. Melcher in Chicago

CAN A BEVY OF BANKERS BUOY THE PRU?

Want to get ahead in the insurance industry? Then go work for a bank. That seems to be the magic recipe these days, as lumbering insurance giants turn to the banking industry for executive talent. Aetna Life & Casualty's recent recruitment of former Continental Corp. Vice-Chairman Richard L. Huber to be the company's vice-chairman for strategy and finance is a notable example. But bankers have virtually taken over troubled Prudential Insurance Co. of America, which saw its capital drop 11% last year after paying out more than $1 billion in fines and settlements resulting from its limited-partnerships scandal.


RYAN: CHASE CONNECTION

Late in 1994, Pru hired Arthur F. Ryan, 52, former president of Chase Manhattan Corp., as chief executive. Ryan, who has a reputation as a cost-cutter unafraid to ditch underperforming assets, is the first non-Pru person to take the top job at the nation's largest insurer. Ryan, in turn, recruited two Chase colleagues: In February, John V. Scicutella, 45, joined Pru as head of operations and systems, a post similar to the one he held at Chase. And on May 18, Mark B. Grier, 42, a former Chase executive vice-president, became Pru's new chief financial officer.

FINANCIAL DISCIPLINE. The influx of bankers stems largely from pressure from insurer boards for greater returns—even at mutuals such as Pru that are owned by policyholders rather than stockholders. Bankers are not always regarded as the most innovative financial executives. But the best ones are attuned to the demands of Wall Street and bring a financial discipline that has been lacking in the staid insurance industry. Financial types such as former American Express executive Sanford I. Weill have also made inroads in the insurance industry. “There's a general view that bankers are more highly focused on the cost of capital and earnings,” says Larry G. Mayewski, senior vice-president at A. M. Best Co., an insurance-industry rating service.

Prudential, which declined to comment for this story, could use a little more focus. It lost $907 million last year, as its insurance operations suffered from such losses as the Northridge (Calif.) earthquake and as its mortgage-lending unit fell victim to rising interest rates. An unwieldy mix of insurance, mutual funds, securities, and real estate, Pru is one of the largest financial-services players in the world, with more than $300 billion in assets. But it lacks the sharply defined strategy of some other financial conglomerates, such as GE Capital Services Inc.

When he joined Pru, Ryan promised he would move in 1995 to improve earnings and capital. In March, he outlined plans to sell the Pru's $75 billion mortgage-servicing business. The unit could fetch $1 billion, analysts say, though no deal has yet been reached. Other moves could include further trimming of the property-casualty unit, which is in retrenchment, and greater emphasis on the sale of products to the retirement market. Bringing in the bankers is just a first step.

By Tim Smart in New Haven

DANUTA OTFINOWSKI

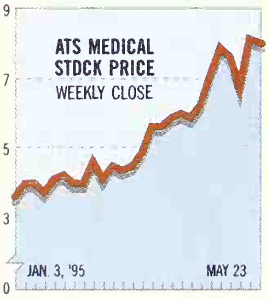
BY GENE G. MARCIAL

TWO HEARTS THAT BEAT AS ONE?

The chief product of ATS Medical (ATSI) is a new kind of mechanical heart valve—and it's giving rivals some blood-pounding competition. The Street has become aware of ATS: Its shares have doubled this year, to 8. But there's bigger reason behind the smart leap: takeover talk.

Savvy investors have been buying into ATS on the belief that the valve maker will soon get a buyout offer from Medtronic (MDT), a major world producer of implantable cardiac pacemakers and also a maker of prosthetic heart valves.

THE PULSE PICKS UP



EARNINGS PER SHARE
1996 Est. 13¢
1995 Est. 8¢
1994 0¢
1993 -3¢
1992 -48¢

DATA: BLOOMBERG FINANCIAL MARKETS, NELSON PUBLICATIONS

One New York money manager who has been accumulating ATS shares puts the value of the stock at 12, based on the prospects of the company's new improved valve. In a buyout, the stock could be worth even more, says this pro, who says an offer from Medtronic seems "imminent." He believes ATS has a good product and technology and a seasoned management team led by Chairman and CEO Manuel Villafana. (In 1976, Villafana founded St. Jude Medical, which the following year introduced the mechanical valve that is now the industry's standard.)

"There's a good fit between Medtronic and ATS," says Rachael Scherer, an analyst at Dain Bosworth. She thinks it's likely that ATS will be taken over one day—but couldn't say when or by whom. Scherer says Medtronic "is having a problem with its own heart valve," and it will have to figure out whether to focus on resolving the difficulty or go after ATS, whose sales are expected by one investor to double to $12 million this year. Currently, Medtronic is developing a new prosthetic heart valve.

ATS valves are marketed in 20 countries. In the U. S., the company is still seeking approval from the Food & Drug Administration.

The ATS product is a possible successor to the artificial valve that has been in general use since the 1960s. The industry's standard—the St. Jude valve—has not been changed much since its introduction, notes Villafana. St. Jude has about 64% of the world's $500 million mechanical-valve market.

The ATS valve, says Villafana, is easier to implant and monitor. And it has a proprietary "open pivot" design that improves blood flow and reduces the likelihood of clots. Villafana and Medtronic spokesman Dick Reed declined to comment on takeover rumors.

BROOKE MAY FLOW A BIT FASTER

Financier Ben LeBow loves complex transactions that give him big stakes in asset-rich but out-of-favor companies. Such deals have made a lot of money for him—and his shareholders. Not that his investment vehicle, Brooke Group (BGL), has skyrocketed. Far from it. Shares of this miniconglomerate trade on the Big Board at 3¼, down from 5½ in mid-September. But he's attracting the smart-money crowd, which thinks Brooke will break out and hit new highs in a year.

One reason: LeBow, a controversial dealmaker, is finally paying attention to beefing up Brooke's quarterly performance and bottom-line results. "This will attract the attention of a whole lot of investors when it becomes evident," says the manager of a large hedge fund who has bought into Brooke. He figures the stock is worth more than twice its current price.

This money runner notes that Brooke's unrestricted cash stash of $325 million (left over from the 1994 sale of its New Valley money-transfer business for $1.2 billion) plus assets of other Brooke units, make the shares worth more than 8.

One Brooke unit is Liggett Group, the fifth-largest U. S. cigarette maker. Liggett also owns a big factory and real estate operation in the former Soviet Union—which LeBow expects will puff up Brooke profits.

Brooke has bought 6.4% of the Show-Biz Pizza Time chain and has purchas for $26.8 million, Ladenburg Thalma a 119-year-old New York securities fi

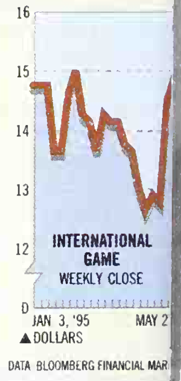
To skeptics, LeBow points to the turns reaped by shareholders w bought into Brooke (then Liggett) 1987 at 12 a share. Since then, LeB figures stockholders have received c and stock dividends of more than 2 share, mainly from asset sales.

WHY COINS ARE DROPPING INTO IGT

Top guns at International Game Te nology (IGT) and most Street a lysts are pooh-poohing rumors that No. 1 U. S. slot-machine maker is takeover target. "The big news is t nothing is happening," insists IGT Ch man Chuck Mathewson, who owns ne ly 5% of the stock. Yet since May when the shares hit a low of 12⅝, t have rebounded to 15 on very hea volume—between 1 million and 3 mill shares some days. So what's up?

A couple of hedge-fund invest have been snapping up the stock, some momentum investors—pros w jump on sharp turns in trading p terns. The buyers are betting, says investor, that either Sony or Sega E terprises will make a run for IGT. I buyout, IGT stock is well worth 30, says. "The stock appears to be hea higher, due to improving investor p chology emanating from the takeo speculation," notes David Boczar of V ue Investing Partners in Westp Conn.

BETTING ON A PAYOUT SOON



DATA: BLOOMBERG FINANCIAL MAR

Gaming analyst Steve Eisenberg of Oppenheimer says IGT's improved cost structure, signs of a pickup in profit margins, and low debt make it a sitting duck for a deep-pocketed group. The likes of Sony or Sega, he figures, could logically link their entertainment capabilities with IGT's skill and scope in slot machin

Until lately, the stock had been f ing because of disappointing earnin It was trading at 33 last ye Spokespersons for Sony and S didn't return calls.

CHARTS BY ERIC HOFFMANN/BW

ECOMMUNICATIONS

ULTIMEDIA BY RIAL AND ERROR

spite glitches, AT&T insists it knows what it's doing

Whatever happened to AT&T's bold plunge into the new worlds of multimedia and anytime-anywhere communica- s? Under former communications ucts chief Robert M. Kavner, the any bought up, started up, or in- ed in virtually every segment of onverging voice, data, and video ds. And, in a high- le "You Will" televi- advertising cam- n, the long-distance hone giant promised a new era of futuris- ommunications was t to dawn.

ell, like lots of other imedia wannabes, is finding that the e isn't arriving on lule. Its foray into ased mobile comput- EO Inc., was a flop has been closed . Its 7.4% stake in ral Magic Inc., a de- er of communica- software, doesn't promising, given that of the gadgets us- eneral Magic's tech- y has made much of sh. Interchange, the online network purchased from Ziff Communications Co. for approximately $50 million in December, won't go live until June, six months behind schedule. In May, the phone giant announced plans to sell its 2.4% stake in 3DO Co., a much-hyped maker of video-game machines that is now struggling. AT&T says it is bailing out because game machines don't fit into its plans—although it still owns the ImagiNation Network, an online video game network.

Despite these setbacks, AT&T says that it's not worried. Chief strategist Richard S. Bodman says the company, which had $2 billion in free cash flow in the last quarter, is willing to seed all sorts of startups and new ideas in the hopes that some will flourish. "Our experience has not been any different than any other venture capitalist's," says Bodman. "When you spawn new businesses, only one or two out of 25 typically make it."

FALLBACK POSITION? Still, industry insiders say that AT&T management wants to see more successes. Chairman Robert E. Allen has publicly complained about the poor performance of Kavner's biggest legacy—the former NCR Corp., which was supposed to help vault AT&T into multimedia leadership (page 114). Now, consultants and industry executives who work closely with the company say AT&T has recently been narrowing its focus. It's in the midst of developing a strategy with greater cohesiveness—aimed more at business customers initially than at consumers.

The switch began after Kavner left last June for Michael Ovitz' Creative Artists Agency Inc. There have been no significant outside investments in consumer multimedia since. Instead, AT&T has been forming alliances to bolster its business offerings. The latest: On May 22, Apple Computer joined AT&T WorldWorx, a group that includes Intel and Lotus Development and is working on videoconferencing.

Another sign: In April, AT&T brought together most of its multimedia businesses under the stewardship of John C. Petrillo, head of its business-communications services. "Within the last 6 to 10 months, AT&T has gotten much more serious about planning around a single strategic environment," says Tim Bajarin, president of Creative Strategies Research International Inc., a consulting firm.

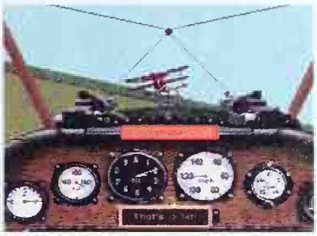
Take Interchange, AT&T's

Pieces of the Puzzle

A few of AT&T's multimedia products

Interchange
File Edit Options Text Window Help
Directory
Custom
Interchange Central
Computing
Washington Post
Star Tribune
Other Services
Member Support
Computing
Go ahead, download a classic
An important message to our users
PC WEEK
PC Computing
Windows
Get the most out of Interchange

INTERCHANGE ONLINE NETWORK A would-be rival to Prodigy and America Online. Launch pushed back from Dec. '94 to June.



IMAGINATION NETWORK (FORMERLY SIERRA NETWORK) An online interactive-games network.

VIDEOPHONE 2000 AT&T's videophone for consumers, with a list price of $1,400, is selling slowly.

INFORMATION CENTER A set-top box that connects to both TV and telephone and uses the TV screen as a display. Available starting in July.

SONY
Book
Wednesday September 28 10:04 am
In: 2
Out: 1
Hallway
Magic Link

RAL MAGIC An AT&T r that developed the ript software for wire- ansmission software n Motorola and Sony s.

COURTESY OF AT&T

online network. AT&T isn't trying to be America Online or CompuServe. Instead, it will operate Interchange as a very sophisticated development "platform" that other companies, such as Washington Post Co. and Ziff-Davis Interactive, will use to build their own online services.

Interchange President Michael E. Kolowich says that AT&T's close relationship with some 10 million business customers on the phone side should attract service providers for Interchange. "If you think about it, AT&T is creating a platform for businesses to do business under their own brand name, the same way they do with an 800 number," he points out.

GUIDING PRINCIPLE. Whether it's in business or consumer services, there is a single guiding principle behind all of AT&T's multimedia endeavors: Use new interactive services to drive ever-increasing demand for phone networks. That doesn't mean getting into content, the way rival MCI Communications Corp. is doing through its investment in News Corp.

The No. 1 carrier has always said it's not interested in creating the videos, information banks, or other content traveling down the line—it would much rather transmit everyone else's traffic. "That's a smart strategy when you're the largest market-share player in the long-distance business," says Daniel Reingold, an analyst with Merrill Lynch & Co. "When you're the biggest, you want to be able to carry everybody's content."

And being the biggest, AT&T can afford to plow some money into losers now. Besides, it may be too soon to tell what a loser is. The EO pen computer was a bust. On the other hand, a product such as General Magic's Telescript communications language may pan out. It works only on handheld communicators from Sony Corp. and Motorola Inc., which makes it look like a dead end now. But there could be a payoff later. "It's a brilliant technology on the wrong platform," says an executive who works closely with AT&T. "But the concepts are still very important to AT&T. They've learned a lot."

The learning process will most likely continue to be messy for AT&T and everyone else in a business that continues to be embryonic, to say the least. As Merrill's Reingold says, multimedia "is going to take a long time, a lot of money is going to be spent, a lot of trials, a lot of errors." You don't have to tell AT&T that.

By Catherine Arnst in New York

ROB DOYLE/BW

AT&T AND COMPUTERS: ANY SIGNS OF SYNERGY?

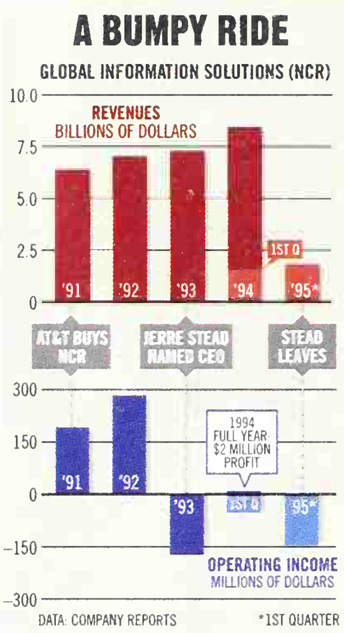
In 1991, AT&T shelled out $7 billion for NCR Corp. and finally staked out the strategic beachhead in computers that it had failed, despite billions of dollars spent, to achieve on its own.

What has come of that initially hostile and bitterly fought takeover? Has AT&T created the synergy between computers and communications to help it play in the world of all-digital communications and multimedia? The answer is mixed, depending on which area of AT&T's computer operations one considers.

Global Information Solutions (GIS), the inelegant new name for the former NCR, still leads the computer industry in having a full product line, from desktop to mainframe, that uses a common line of microprocessors—namely, Intel Corp.'s. Potentially, that's a big boost in helping customers wire up far-flung networks. And NCR has given AT&T presence in scores of foreign countries, including Japan, where the AT&T name was not well-known. In return, NCR has gained access to AT&T's deep pockets, the knowhow of its Bell Laboratories, and its strength in data networking.

But little has come from the acquisition. Of the 30-plus NCR officers on board in 1991, less than a half-dozen are left, most checking out as soon as their contracts allowed them to go. Early this year, Jerre L. Stead, the former AT&T executive who had been called in to streamline NCR in 1993 and improve its suddenly sagging profitability, left to run a software company. Lars G. Nyberg, recruited from Philips Electronics, is slated to become the third GIS head in four years on June 1.

A BUMPY RIDE



DATA: COMPANY REPORTS

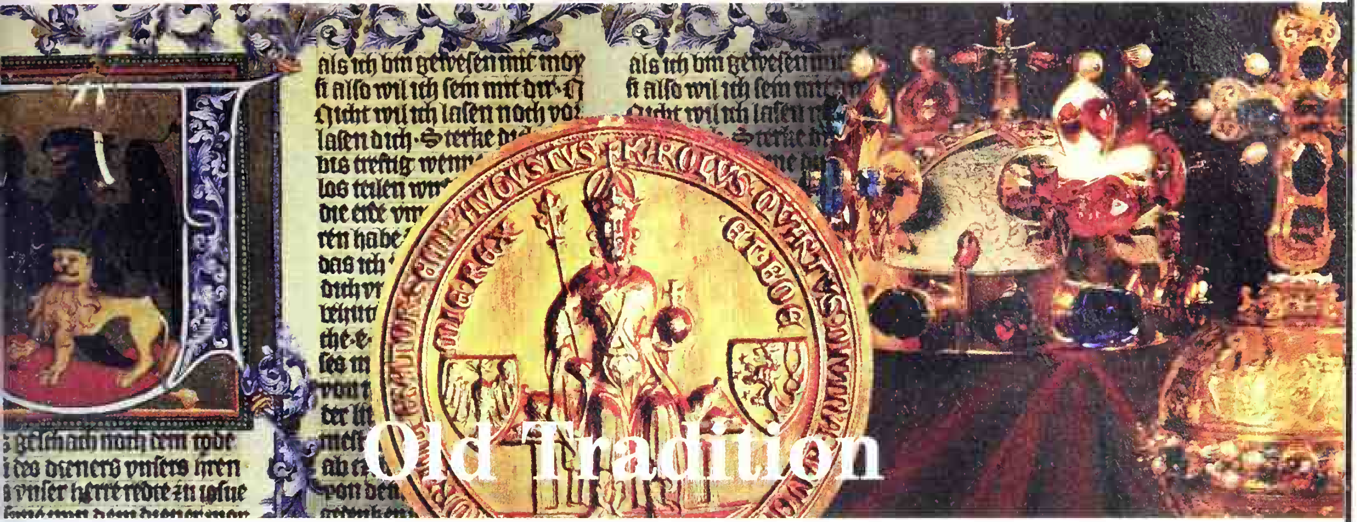
*1ST QUARTER

GIS still has its strengths. For example, it leads the market for powe ful parallel-processing computers th excel in data mining—finding patterns in reams of retail transaction But rivals have been raiding GIS. Many of the unit's top technical and marketing personn have jumped ship for Oracle, Unisys, and even IBM. Says one recently-depar ed NCR executive: "The top talent's n longer there. They're going to have to rebuild that."

GIS's biggest immediate problem is in PCs, which contributed heavily to surprising $143 mi lion first-quarter lo at GIS. Margins col lapsed under inten price competition and a bumpy trans tion to new models Analysts say AT&T CEO Robert E. Alle told them the oper tion had a limited amount of time t get competitive or it would be shut down. "They were obviously embar rassed that this happened," says Ar thony Ferrugia, an analyst at A. G. Edwards & Sons Inc.

A spokesman says GIS intends to remain in the PC business, having streamlined its product developme process and reduced the number o models it builds. And to help push its high-end computers, the compa added 400 people to its consulting staff last year. A new computer lin planned for this fall is designed to give even small and medium-sized retailers, not just giants such as Wal-Mart, the ability to analyze masses of sales transactions. As AT&T has learned in its multimedia forays, the road to an all-digital world where computers and commu nications (and the companies that make them) blend is a bumpy one, indeed.

By John W. Verity in New Yo



Kozeny
lanager
New Thinking

CZECH REPUBLIC [ˈchek riˈpablik] • Premier Václav Klaus;
ition of 10,5 million; stable government; parliamentary democracy;
ed budget; GDP 2,5%; stable exchange rate 1 USD = 27,8 CZK; low
on 10%; low unemployment 3,1%; high foreign currency reserves
,4 billion; low foreign debt USD 9,1 billion; average monthly salary
CZK; PSE market capitalization USD 12,4 billion; 80% economy in
hands; skilled and educated work-force; convertible currency; free
ation of profits; tax treaties: U.S.A., Netherlands, Cyprus and others
ry: from 5th to 6th century arrival of Czech tribes; from 9th to 10th
y establishment of the Czech state, 1355 Charles IV, Roman
or and King of Bohemia; 1348 Charles University of Prague founded;
roclamation of Czechoslovakia; 1968 Prague Spring; 1969 proclamation
of the Czech Republic; 1977 Charter 77; 1989 Velvet Revolution,
ing of democratic changes in society; 1990 the Czech and Slovak
itive Republic; 1990 establishment of HC&C, The Bill of Rights;
irst wave of privatization; 1993 dissolution of Czechoslovakia
stablishment of the independent Czech Republic; 1994 signature
tnership for Peace agreement; affiliated member of EU; comple-
f second wave of privatization; municipal elections confirmed
citizens strong support for market economy in November 1994.

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ONLINE SERVICES

EVERYONE'S RUSHING THE NET

Snaring subscribers with Internet access is now the big play

If you're like most people who enjoy surfing the Internet and its World Wide Web, you're paying $15, $20, maybe even $50 per month to connect your personal computer to the Net over a phone line. By yearend, that may turn out to be $15, $20, or $50 too much. Executives who are privy to discussions at certain telecommunications carriers say that basic Internet service may, in the next few months, become gratis—a giveaway, perhaps only temporary, bundled with long-distance service.

Even if free Internet service doesn't materialize that quickly, the fact that it's even being considered shows how badly companies want to grab some of the Internet action. With dizzying improvements to the multimedia experience that it's able to deliver, the Net is now the undisputed center of the online services universe. And companies ranging from AT&T down to mom-and-pop operations are jockeying to win their fair share of the millions of American households—and thousands of businesses—that aren't plugged in. Between the two, "there are 160,000 new Internet users every month," reckons Scott B. Ross, president of MCI Business Markets, the long-distance company's business-services division.

MURDOCH'S GATEWAY. Indeed, the Internet access market will grow from $123 million this year to more than $4 billion in 2000, according to Forrester Research Inc., a market researcher in Cambridge, Mass. Maloff Co., another researcher, based in Dexter, Mich., estimates that the number of so-called SLIP connections, a particularly popular way of plugging PCs into the Net, is growing by 38% every month. Prices have slipped from around $50 for unlimited usage each month back in 1993 to as little as $20 today, depending on location and other service factors.

Not since the cellular-telephone boom of the late 1980s has there been such a mad scramble to win subscribers to a new communications service. Local and long-distance phone companies as well as cable-TV operators are all looking to grab a portion of this market. Commercial online services such as America Online, CompuServe, GEnie, and Prodigy Services are increasingly emphasizing their improved Internet connections—usually a freebie with the monthly subscription—as a way of keeping their 5 million-plus subscribers in the fold.

More competition is coming. Microsoft Corp. plans to make Internet access a major component of its forthcoming network service, and AT&T, the long-distance colossus, is getting ready to jump in. Rupert Murdoch's News Corp., which just got a $2 billion cash infusion from MCI, is thoroughly remaking its Delphi as a mass-audience gateway to the Internet. Already, MCI has made Internet access part of its networkMCI Business service, which bundles E-mail, fax, and teleconferencing into a single service. MCI also runs an electronic m
on the Internet.

Until lately, the Internet-access ma
ket has been wide-open to just ab
anyone setting up shop. All you h
do was get an Internet node—a sm
engineering workstation and a few m
dems would do—and arrange to li
with a regional or national segme
the Net, and you were in busines
day, hundreds of companies buy Int
capacity in bulk and resell in sm
chunks—much as so-called aggre
do in the long-distance phone mar

TOO MANY TITANS. Not all Intern
cess companies are of the mom-an
variety. NETCOM On-Line Commu
tion Services Inc. and PSI, for exa
are hot startups that have raise
million and $42 million, respective
public offerings. They're proffering
sumer-friendly software at the PC
and maintaining directories of the
scattered resources that make it all
er to navigate. With its mass-m
NetCruiser software, running on M
soft Windows-based PCs, NETCOM
from 72,400 to 115,000 subscribe
the first quarter of 1995. With AT&
Microsoft looming, however, the wi
of opportunity may be shutting for
ups. Says Stephen C. Franco, data
munications analyst at Yankee Gro
research firm: "There are too many
players around."

Many companies—large and sm

networkMCI
BUSINESS
internetMCI
infoMCI
messageMCI
conferenceMCI

Who's Who on Internet Acce

TELECOMMUNICATIONS CARRIERS
- MCI
- Pacific Bell
- Sprint
- AT&T *
- Ameritech

INTERNET ACCESS PROVIDERS
- UUnet
- NETCOM
- PSI
- BBN Planet

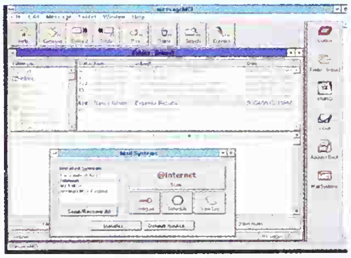
ONLINE SERVICES
- CompuServe
- America Online/ANS
- Microsoft *
- Delphi
- Prodigy

COMPUTER COMPANIES
- IBM

CABLE-TV OPERATORS
- Tele-Communications

LOCAL RESELLERS A BULLETIN BOARDS
- Hundreds acros the country

* Expected to enter in 1995



OFFICE CRUISING: *The networkMCI Business service is the carrier's entry into the Internet business derby, where it faces IBM, BBN Planet, and some Baby Bells*

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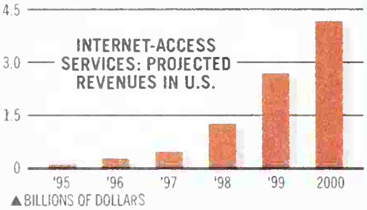
are eyeing the business market, which may prove more profitable than the cutthroat consumer market. Among others, IBM, MCI, a number of Baby Bells, BBN Planet, and UUnet, which is 10% owned by Microsoft, are promising businesses security and reliability as they move toward electronic commerce on the Net. The total market, including consulting services: $415 million, says Yankee Group's Franco.

So far, one company has been conspicuous by its absence—AT&T. But that's likely to change by yearend. Since last fall, companies in the Internet business have been bracing for an AT&T entry. A company spokesman declines to comment, except to say that AT&T is indeed developing an Internet strategy, but sources close to the long-distance giant say that there is an ambitious plan, known by the unofficial name of AT&T On-Line. Customers anywhere in the country will have local, dial-in access to the Internet at the relatively high speed of 28,800 bits per second. AT&T is also likely to offer them the modems for that speed at prices well under current retail. What's more, the company has turned the focus of its New York-based Downtown Digital operation, originally set up to create interactive-TV services, to developing spiffy on-ramps to the Internet that even the nontechnical crowd can use.

HIGH HOPES



DATA: FORRESTER RESEARCH, INC

AT&T is also working on Internet services for business customers. The nationwide service that it is developing to connect office networks using Novell Inc.'s NetWare, will be based on the TCP/IP protocols of the Internet. So it may be possible for AT&T to create, in effect, a sort of private Internet that would help businesses communicate securely but also offer access to the Net's other resources, such as the World Wide Web.

With or without AT&T, Internet access has turned into one of the hottest markets around. So if you're shopping for a connection, you would do well to avoid signing any long-term contracts. The competition is sure to bring new services and better prices for months, if not years, to come.

By John W. Verity in New York

MEDICINE

ARTIFICIAL BLOOD MAY BE A HEARTBEAT AWAY

Northfield Labs is close to perfecting recycled hemoglobin

Richard DeWoskin's quest began in 1970, as critically wounded American soldiers were bleeding on the battlefields of Vietnam. A young biology student at the time, DeWoskin was recruited by prominent Navy surgeon Dr. Gerald S. Moss to help develop artificial blood for the U. S. military.

It was the start of a roller-coaster ride from discovery and breakthrough to the brink of despair. Now the company they star Northfield Laboratories Inc., may f ly be nearing its goal: to create an i pensive, abundant, and safe replacem for hemoglobin—the oxygen-carr component in red blood cells. "Our w is finally paying off," says DeWos now chairman and CEO. "We're not far away."

GOULD AND DEWOSKIN: *Their mixture still must endure more tests*

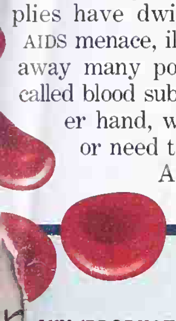
A half-dozen other tech and medical eq ment companies—inclu giants Baxter Interna al, Upjohn, and Eli Lil have targeted sim types of products. Bu cently, the Evanston startup has pulled ah in all-important "Phase trials to establish effi and safety. If it can pa final cluster of t Northfield's product, ca PolyHeme, could be on shelves in 1997.

HYPOGLOBIN. A dose skepticism couldn't h however. Over the decade, more hype hemoglobin has iss from science labs in Ar ica, Europe, and Japa and Northfield has b no exception. The fac human blood is fiendi difficult to duplicate. hemoglobin is the big challenge of all. This i bearing protein, wl makes blood red, bi oxygen and ferries i tissues throughout body. Massive blood

URGENCY: The need to develop replacement hemoglobin is greater than ever: Many blood donors have been scared off by the AIDS epidemic, and blood is already in short supply ckly leads to oxygen deprivation, owed by shock and failure of vital ans.

Physicians can bolster a patient's od levels temporarily with salt or tein solutions that keep the heart nping. But these can't deliver critical ygen. Transfusing donated blood ves the problem but has clear disadntages. It must be matched to the ient's blood type, which wastes preus time. It is prone to viral contamiion, as the AIDS epidemic has demonated. And it has a short shelf life ust 28-42 days.

Consequently, blood is almost always short supply. More than 4 million ericans receive upwards of 12 million ts of it each year. But recently, supplies have dwindled because the AIDS menace, illogically, has scared away many potential donors. So-called blood substitutes, on the other hand, won't carry diseases or need to be cross-matched. And in theory, they can be stored for up to one year. As a result, market for substitutes could run as as $2.5 billion a year, according to sts at Robertson Stephens & Co. n Francisco.



IST TYPE. The stumbling block for ists has been retrieving and isolathe 280 million hemoglobin mole- contained in each red blood cell so they can be transfused no matter a person's blood type is. Removed a protective cell casing, however, molecules tend to leak through the vessel wall into surrounding tis- Unless they are genetically or ically altered, the molecules can be to nearly every organ in the body. get around that, companies have ed several exotic approaches). Upjohn, in a partnership with n-based Biopure, is testing hemon from cow's blood that is rejig- to avoid attack by the body's imsystem. Somatogen Inc. in Boulder, Colo., working with giant Eli Lilly & Co., is producing hemoglobin from genetically altered bacteria. Others hope to bypass nature's own mechanism entirely. San Diego-based Alliance, backed by Johnson & Johnson, is developing a substance based on nontoxic, oxygen-carrying chemicals called perfluorocarbons. Such substances have produced side effects, but Alliance has reformulated them to smooth the body's acceptance.

Northfield's approach is less technologically ambitious and may, therefore, be easier to perfect. Scientists begin by removing red blood cells from donated blood that has sat on a shelf longer than the time permitted by the Food & Drug Administration. Since expired blood has no other medical uses, Northfield can obtain it cheaply. Next, they extract hemoglobin molecules and link them together in long chains, called polymers. Their larger size prevents them from leaking from the blood vessels. The resulting solution is purified and bottled, giving it a long shelf-life.

This approach isn't entirely new. Northfield used similar techniques in the mid-1980s to produce its first experimental substitutes. Unfortunately, these caused breathing difficulties and muscular pains in some test patients and had to be withdrawn from FDA trials in 1990.

Northfield says the problem was caused by naturally occurring contaminants the company had overlooked. With stepped-up purification, the symptoms disappeared. In March, Northfield received FDA approval to double its dosage of PolyHeme in ongoing human safety trials to 300 grams or six units—about hree-fifths of the total blood in the hun body—an unprecedented high level in the field of blood substitutes and ab t what might be required in a severe accident. Northfield's closest competits, Baxter and Somatogen, have had ficulty moving beyond 30 grams in simr phase II trials. "Northfield has jued way ahead," says Kevin C. Tang, a biotechnology analyst with Alex. Brown & Sons Inc. Investors are also pleased. The stock is trading at 13, double the price it listed at a year ago.

That doesn't mean the battle is over. "There are still a lot of fundamental questions that need to be answered," says Dr. Joseph C. Fratantoni, the FDA's chief medical reviewer for blood substitutes. Because of earlier safety problems—Northfield's and others'—the FDA remains wary of blood substitutes in general, and has yet to lay out specific endpoints for Phase III trials that establish efficacy and dosage. Says Fratantoni: "We've already got a product that's satisfactory in both safety and efficacy"—donated blood.

TRIAL TRIALS. Northfield's biggest problem is time. Even analysts who admire its prototype admit that Northfield may not have deep enough pockets for a prolonged Phase III trial. Unlike its larger and more diversified competitors, the company has no other products on the market or even in the pipeline. DeWoskin maintains that the need for a cash infusion is not immediate. The company has $12.5 million in the bank—sufficient to cover the next 20 months of expenses. "We're not strapped from an operating standpoint," he insists.

Expanded clinical trials and increased manufacturing will cost Northfield $25-$30 million, but DeWoskin and President Steven A. Gould believe they can sign up a partner—preferably a large pharmaceutical company that will trade cash and production capacity for PolyHeme marketing or distribution rights.

For DeWoskin, hashing out such deals is a minor detail compared with the enormity of proving the science—and helping patients. Since the 17th century, he notes, researchers seeking blood substitutes have tested everything from milk and vegetable oil to beer. If he can keep Northfield on track, they may be breaking out the champagne.

By Ron Stodghill II, in Evanston, Ill.

The Race to Develop Blood Substitutes

ANY (PRODUCT NAME)	HOW PRODUCT WORKS	CLINICAL TEST STATUS
field Laboratories Heme)	Isolates and purifies hemoglobin from donated human blood and links the molecules into long chains called polymers	In high-dose, Phase II* trials (up to 300 grams)
er International spirin)	Isolates and purifies hemoglobin in method similar to Northfield's but doesn't "polymerize" it	In low-dose Phase II trials
atogen and Eli Lilly 1.1)	Uses recombinant hemoglobin that's genetically engineered to mimic natural hemoglobin	Phase II trials—having trouble raising dose
nce Pharmaceuticals and & Johnson nson ygent)	Uses oxygen-carrying chemicals called perfluorocarbons (PFC)	Phase II trials—having trouble raising dose

DATA: COMPANY REPORTS, BUSINESS WEEK

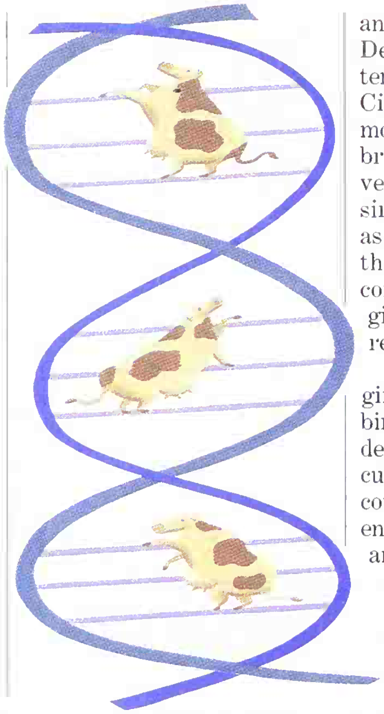
*EARLY CLINICAL TESTS FOR SAFETY AND EFFICACY

ILLUSTRATED GRAPHIC BY LISA KNOUSE BRAIMAN/BW

Developments to Watch

EDITED BY NEIL GROSS

DNA TESTING: BEYOND THE O.J. TRIAL



MILLIONS OF AMERICANS watching the O.J. Simpson trial have heard of the DNA test called PCR, for polymerase chain reaction. It's an ingenious biochemical technique for duplicating infinitesimal strands of genetic material millions of times, thus creating samples large enough to match against the DNA of a crime victim or perpetrator. Demand for PCR chemicals and equipment is now soaring. Hoffmann-La Roche Inc. and Perkin-Elmer Corp. sold hundreds of millions of dollars' worth of them last year.

The forensics market, however, may someday pale beside uses in agriculture and animal husbandry. Since last December, Applied Biosystems, a P-E division in Foster City, Calif., has sold 100 modified PCR kits to cattle-breeders, who use them to verify lineage or identify desirable genetic traits, such as marbling of the meat. In the past, such traits were compared visually, but PCR gives a faster, more precise reading.

Cattle may be just the beginning. Collectors of rare birds could use the kits to determine sex, which is difficult at an early age. Kits could also come in handy for environmental sleuths in Asia and South America. Instead of policing the rain forests for illegal lumbering, agencies could run tests to determine the exact origin of a two-by-four.

MAKE WAY FOR PLASTIC OPTICAL FIBER

SINCE PLASTIC WAS INVENTED IN THE 1850s, IT HAS transformed industries from textiles to transportation to microelectronics. High-speed communications is one of the last holdouts, but that may soon change. On May 15, Boston Optical Fiber Inc. in Marlborough, Mass., became the first company to sell plastic fiber for telecommunications. It promises data transmission speeds approaching those of glass fiber for a fraction of the cost.

The material—called graded-index plastic optical fiber, or GIPOF—is more flexible than glass. And while it won't take over intercity phone traffic, where peak speeds are critical, it could start replacing copper wire in car electrical systems and in computer local-area networks as early as next year. Boston Optical licensed the technology from a Japanese inventor and enlisted General Motors, Honeywell, and Boeing in a consortium to develop GIPOF, backed by $6 million in Pentagon funds. In Japan, Sony, NEC, Toray, and Toshiba have formed a similar consortium.

IT'S FLEXIBLE: *Plastic optical fiber could be used in LANs*

MINI LASERS WITH MEGAPOWER TO BURN

DO YOU WANT TO GET RID OF freckles or clear up age spots? No problem—if your dermatologist has a laser the size of a two-drawer filing cabinet. Now, these and other big medical and industrial lasers can be crammed into much smaller boxes, thanks to Paradigm Laser Inc., a startup in East Rochester, N.Y. Using its lasers, Lihtan Technologies Inc. in San Anselmo, Calif., has already unveiled a microwave-oven-size system.

Paradigm's trick? Necklaces of pinhead-size laser diodes around the main laser, a rod made of garnet crystal. Normally, light from diodes is too weak to activate laser rods. That limits "diode-pumped" lasers to a few watts of power. But Paradigm rings each half-inch of the rod with a 70-diode array. The result: An inch-long laser emits 100 watts, enough for surgery. A 3-inch, 2,000-watt laser easily cuts steel.

ZEBRA MUSSELS: *Death by air-bubble removal*

INNOVATIONS

ZEBRA MUSSELS CLOG water-intake pipes in th Great Lakes and elsewhere. Poison and scrap ing don't keep them away. So Tiao Chang, a associate professor of gineering at Ohio University in Athens, O has patented a vacuum that sucks bubbles o the water so the mussels can't breathe.

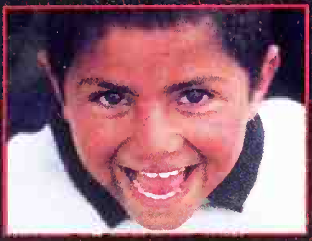
- A Duke University study has found that farm odors affect the brain's limbic system, making people depress tense, angry, fatigued, and confused. The N Carolina Pork Produce Assn. is funding resear on solutions, such as pu ting additives in hog fe
- A Dutch team uses sound waves to break u oil droplets in soil so th oil can be pumped out with groundwater. In te by De Ruiter Milieutec nologie of Halfweg and Technical University of Delft, 71% of diesel fuel was removed from soil i just five days, vs. 40% i 11 days without the use sound waves.
- Enviro-Gen, a batter from EnviroLite Produ Ltd. in Vancouver, B.C produces up to 12 volts electricity when you ad salt water. Its magnesium-alloy anode has to be replaced after 40 hou of use at one ampere.

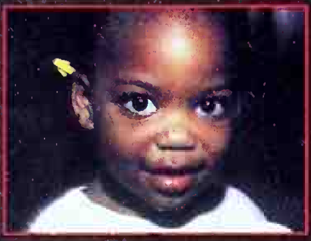
TOP TO BOTTOM: PHOTOGRAPHS BY MIKE OKONIEWSKI/GAMMA LIAISON, COURTESY OF BOSTON OPTICAL FIBER; ILLUSTRATION BY DAN VACCARINO

Recently, Business Week Made 100 Small Investments.

The Forecast?

ncredible Returns.





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yone can keep banks at bay, it's lobbyist Paul Equale

acing last month through the underground passages that connect the Capitol to its neighboring office buildings, stopping occasion- o slap a representative's back or trategy, Paul A. Equale was in se. The chief lobbyist for the In- lent Insurance Agents of America torming Capitol Hill, leading an of IIAA troops during the group's legislative conference. "I like lob- with 700 of my members in Equale said between pep talks to ops. "It's like walking down the vith a howitzer."

bravado is vintage Equale. g one of the most influential oots lobbying machines in Wash- the 44-year-old lawyer from , N.Y., relishes his image as the ssential Beltway insider. A zer extraordinaire" as one staff- ribes him, Equale is a fixture on , spending much of his day walk- halls, buttonholing members to gent-friendly legislation. He out at the Washington Sports Club on Capitol Hill, the better to be closer to legislative aides. He even held the reception for his second marriage at the Rayburn House Office Building.

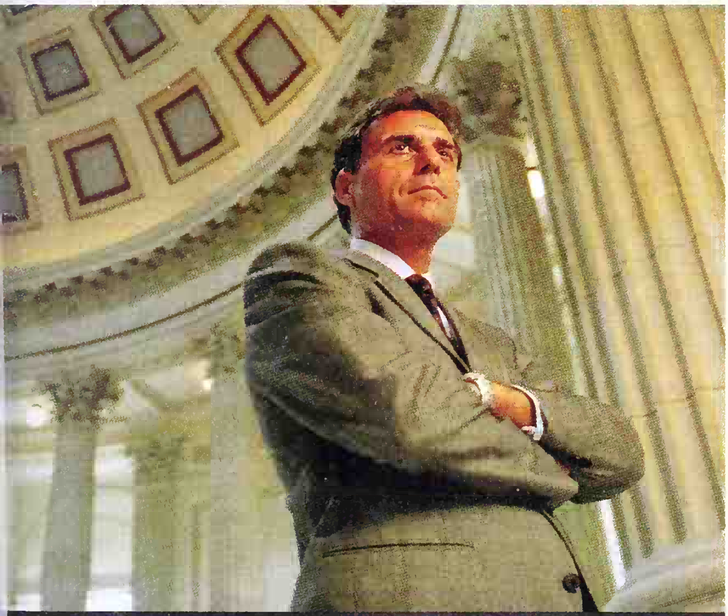
But the IIAA's clout and Equale's political connections face a huge test. The issue: the long running battle by independent agents to halt the advance of bankers into insurance sales. On May 10, the House Banking Committee approved an overhaul of the Depression-era Glass-Steagall Act, which separates banking and securities activities. While the act does not explicitly address insurance, the IIAA has in years past tried to attach language to such bills to restrict bank insurance sales. Rallying its 300,000 members behind such a move, Equale's group has usually smothered banking legislation before it emerged from the panoply of congressional panels that must approve changes in banking laws. But 1995 could be different.

Because bankers continue to make inroads into insurance through regulatory loopholes and court victories, this time simply killing legislative bank reform won't be enough. In January, national banks' ability to sell annuities was upheld by the Supreme Court—a battlefield where the agents' political clout is worth little. And under a loophole, the Office of the Comptroller of the Currency has allowed banks since 1984 to sell insurance from towns with fewer than 5,000 people—encouraging giant banks to set up shop in those tiny burgs from which they sell insurance.

This new world order has handed the usually uncompromising Equale, an outspoken Democrat, the unfamiliar task of trying to strike a deal in a GOP-led Congress before his agents lose any more bargaining power. "It's becoming tougher for agents to point to clear lines of demarcation [between] banking and sales of insurance," says Roger N. Levy, chief lobbyist for the Travelers Group. So restricting bank sales of insurance is "a tougher sell politically," Levy adds.

The IIAA has certainly been stung by bank competitors. In the mid-1980s the OCC allowed national banks to sell annuities. By 1993 banks had 32% of that $42 billion market, according to Michael White Associates, a consultancy in Radnor, Pa. Meanwhile, agents are also being squeezed as the number of insurance policies sold by mail or through insurers' own sales forces swells. The result: The nation's 40,000 independent agencies have seen margins decline 40% in five years, to about 15%.

That has sparked a lobbying frenzy among Equale's members. A database at the IIAA matches every member of Congress with agents in his or her district who can be called upon to sway



TICK: *Equale is an expert at "carpet bombing" Congress*

BARBARA RIES

Equale's Agenda

The Independent Insurance Agents of America (IIAA) wants bank reform to include:

STATE REGULATION Agents say putting states in charge of bank insurance activities would create a level playing field. But it also would keep banks out of the insurance business in at least 12 states.

SALES RESTRICTIONS Agents cite the need to protect consumers from possible abuses by banks, such as tying loan approval to the sale of insurance products.

COMPTROLLER CURBS Agents argue that big banks are exploiting a legal loophole allowing them to sell insurance nationally from small-town branches. They want Congress to curb further expansion of bank powers by the Comptroller of the Currency.

DATA: IIAA

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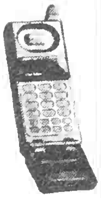

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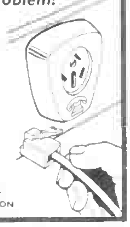

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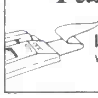

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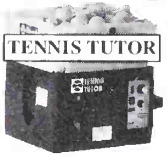

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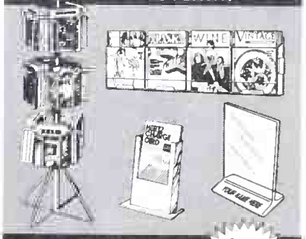

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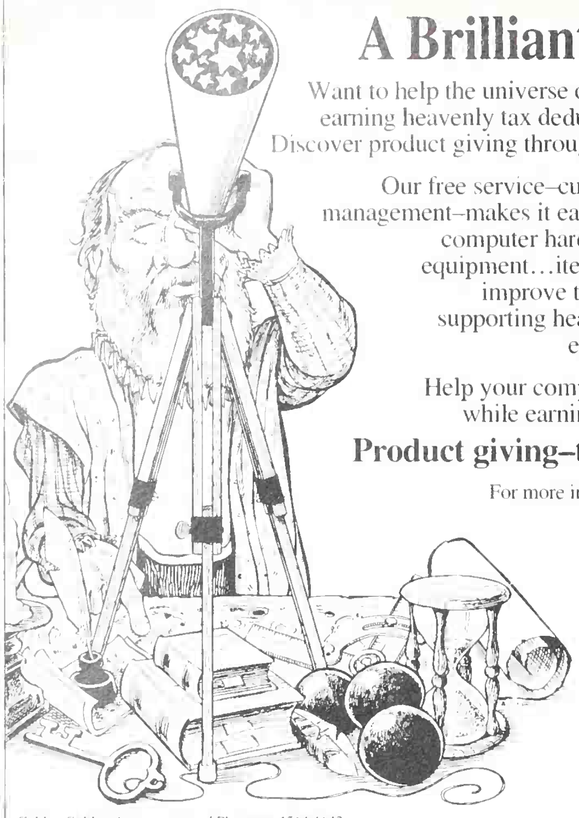

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them. Equale also enlists a handfu o well-connected agents for a more er- sonal approach. One such tactical tr p- er: Lewis Gray, a Mississippi insur ce agent and former Navy flight instru o to Senator Tom Harkin (D-Iowa).

For more critical issues, Equale a tap the entire system in a move fondly refers to as "carpet bombin — marshaling every agent, through newsletter, or phone, to push an i with congressional members from t district. Such organization makes h IIAA a potent force. It also doesn't that its political action committee d out $1.1 million in campaign contri tions between 1991 and 1994.

"They've been in my town meet g back home, in my offices in Washing and in Baton Rouge," says Represe tive Richard H. Baker (R-La.) of House Banking Committee. "They one of the better organizations in ting their voice heard."

PEERAGE PRESSURE. The group's your-face style mimics its flambo lobbyist. No Ivy Leaguer—the son liquor store owner, Equale ea undergraduate and law degrees the State University of New Yor Buffalo—he still mixes easily with Gucci loafer set and the legislators lobby. Just look at Equale's trov photos showing him shoulder to sh der with assorted pols. "I'm like a p Democrat Equale boasts of his Hill

But peerage may not count wh new bloodline takes the throne. T why much of IIAA's intelligence flows through Equale's deputy, Rep can Robert A. Rusbuldt. Rusbuldt his boss's flash but can get a pers meeting with House Speaker Newt grich (R-Ga.) and attends Comm Committee meetings devoted to cra a deal between bank and insur interests.

Still, IIAA ruffles feathers when it to. In May, House Banking Comm Chairman Jim Leach (R-Iowa) an contended Equale reneged on a pro to remain neutral to the chairman's reform bill. The spat has been reso but Equale says such tiffs are inevit "It's a little like hockey: If you play game long enough, you have a few t knocked out," he explains.

He could lose a few more in weeks ahead as banks and agents tr hammer out a deal. But withou cease-fire, the IIAA's troops could fer greater casualties at the hand the courts and regulators. So a com mise doesn't sound so bad right n— even for a guy armed with a howit.

By Amy Barrett in Washin

To Prevent Benefits Decay, Give Your Dental Plan An Annual Check-Up.

thout appropriate care, your dental plan
uld be eating away at your bottom line.
ensure you're not spending more to get
s than you should, make certain that any
ntal plan you select includes these essentials:
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ıst two dental exams and cleanings per year.
me plans don't include fluoride or sealants.
urs should. These treatments help prevent
vities, which brings down the cost of care.
Flexibility in appointment schedul-
g. Many insurers encourage their participat-
g dentists to schedule "plan patients" as
-in appointments. Your employee may have
take time off during the day to receive
ntal treatment or wait months to be seen.
at's not only a problem for the patient, it
sts you valuable employee time.

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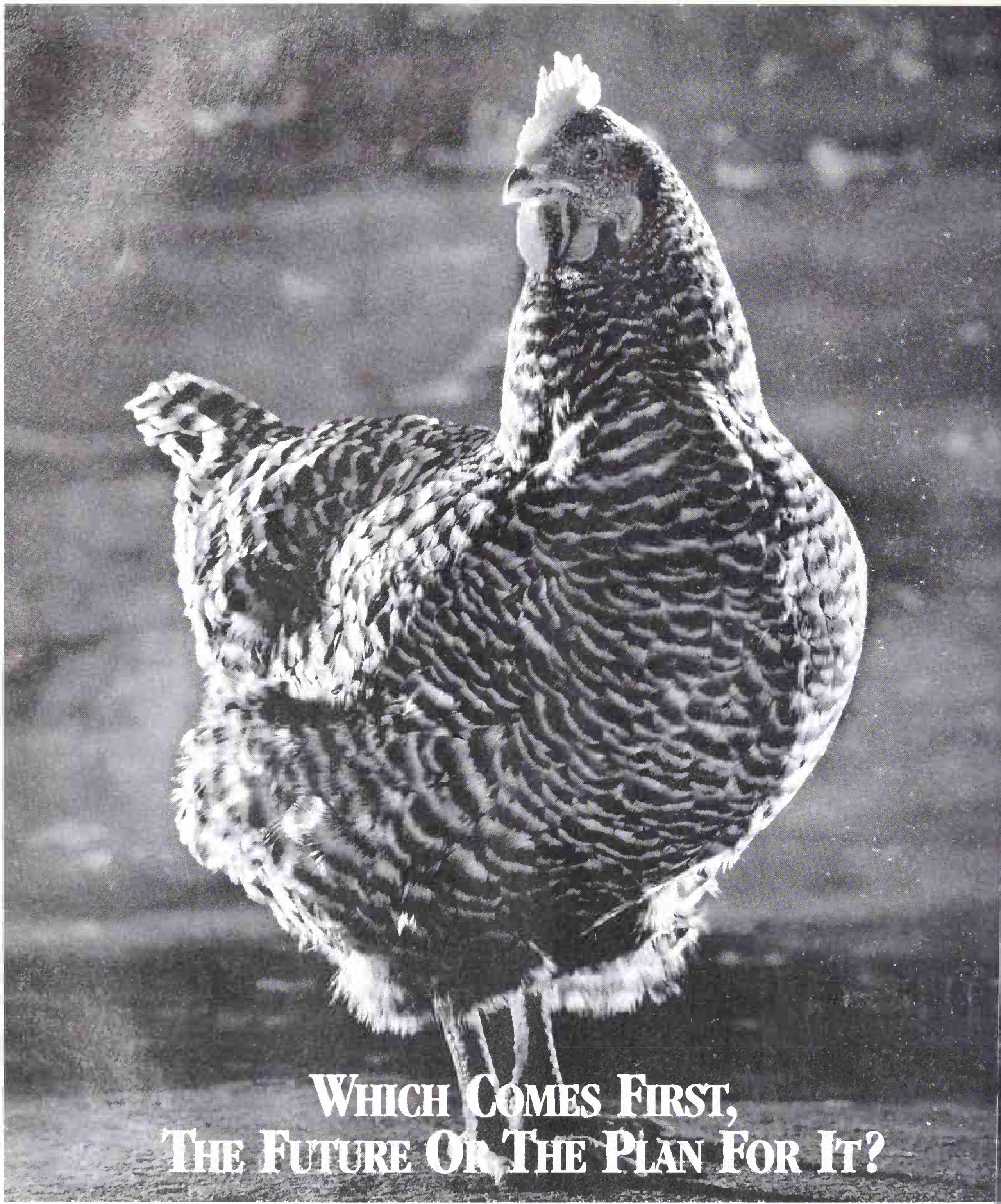
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EDITED BY AMY DUNKIN

IN THE MARKET FOR A HOUSE? YOU'RE IN LUCK

REAL ESTATE

Mark Pofsky and his wife are looking to buy their first home. Intent on finding a 2,000-square-foot house in California's San Fernando Valley for less than $300,000, the Pofskys have made a few lowball offers but have not yet snagged a deal. Still, they're encouraged. "We started to look because of the interest rates coming down," he says. "It's a great time to buy a home."

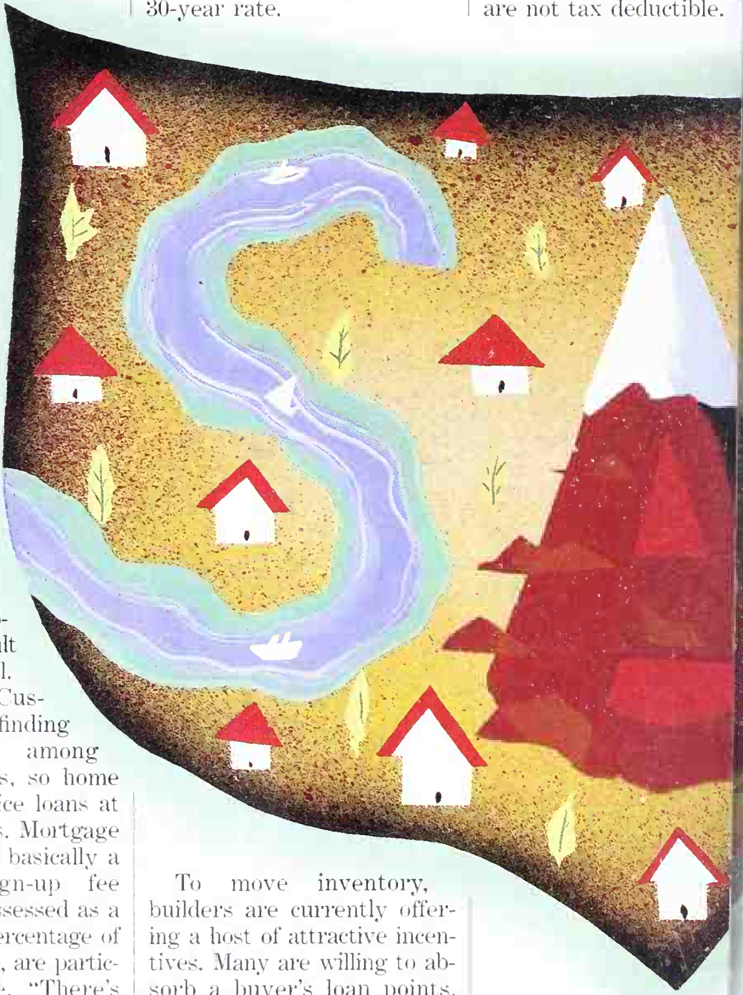
The market certainly is improving for buyers. Since peaking in January, the average rate on a 30-year fixed mortgage has dropped a full point, to 8.25%, and it's still falling. One-year adjustable-rate mortgages are at 6.51%, down 0.36 points in the same period. Happily for house hunters, this financing bonanza has coincided with an oversupply of residences—there's currently a seven-month supply of newly built homes, up 17% from a year earlier—and a cooling of housing price inflation. The average existing single-family home sold for $107,900 in March, 1995, the same price as a year earlier.

"If I were looking to buy, I don't know if I would wait," says Priscilla Toomey, president of MovePower, a Southport (Conn.) moving consultant. Adds Richard Loughlin, CEO of real estate giant Century 21 International: "Homes are probably the most affordable they've been in years." The March median home price in the Northeast was $136,700, down 3% from a year earlier; in the Midwest, $88,000, up 3%; in the South, $92,600, down 2%; and in the West, $141,900, down 3%.

After a very weak winter, due to rainy weather in the West and high mortgage rates nationwide, sellers are anxious. Likewise, mortgage brokers, who lost 44% of their business when the refinancing boom ended in the winter of 1994, are still scrambling to write new loans. This hot competition has benefited consumers. Countrywide Credit, for example, allows mortgage seekers to apply in person or on the telephone. Details are also available on computer via America Online and CompuServe. Phone lines are open six days a week, 16 hours a day, and borrowers can go through a 15-minute application process that can result in instant approval.

POINT SHAVING. Customers are also finding more flexibility among mortgage brokers, so home buyers should price loans at several companies. Mortgage points, which are basically a sign-up fee assessed as a percentage of the purchase price, are particularly negotiable. "There's still a lot of capacity, which is bringing better pricing and better options to the consumer," says Sylvia Reynolds, director of marketing at BankAmerica Mortgage.

When choosing a mortgage, however, consumers should be aware of how much interest they save on shorter loans. The 30-year mortgage remains popular. But remember that a 15-year $100,000 loan at 8% costs $90,000 less in interest than a 30-year loan at 8%. And 15-year rates are less than the current 8%, 30-year rate.



To move inventory, builders are currently offering a host of attractive incentives. Many are willing to absorb a buyer's loan points, pay all closing costs, or throw in extras such as a deck at no additional cost. In late April, Los Angeles-based builder Kaufman & Broad began offering a 100% financing program. "It effectively costs people zero to move into a house," says CEO B
Karatz. But it's expensiv
the long run. A 30-year a
ally adjustable mortg
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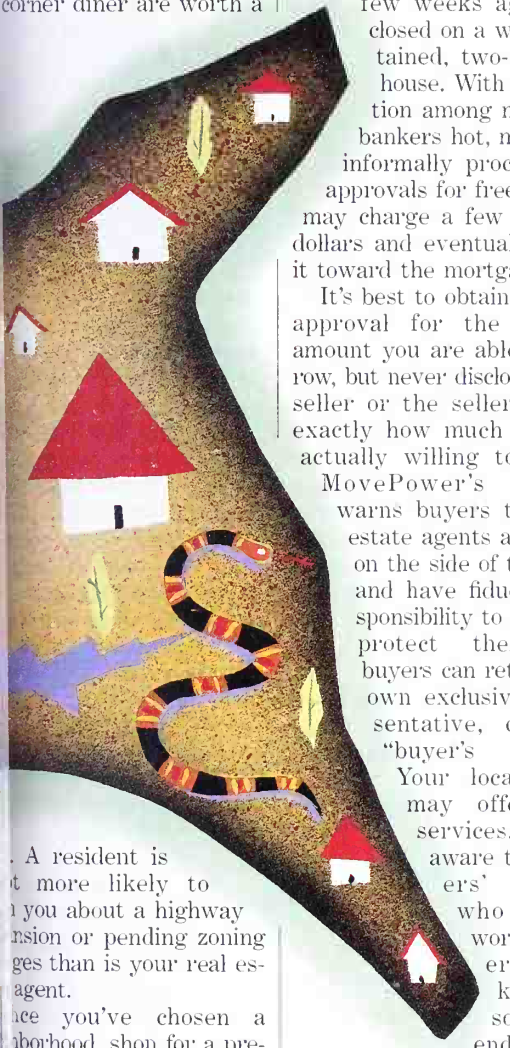

commitments are readily available today and can be a very helpful negotiating tool with the seller. Preapproval lets buyers know exactly what price range they can afford. It also tells the seller you're serious and able to close a deal quickly. Todd and Elizabeth Gaydowski of San Piedro, Calif., got their preapproval for free at a conference sponsored by the Community Redevelopment Agency of the City of Los Angeles. They weren't sure initially they could afford a home they would like, but the preapproval gave them confidence to start looking. A few weeks ago, they closed on a well-maintained, two-bedroom house. With competition among mortgage bankers hot, many will informally process preapprovals for free. Others may charge a few hundred dollars and eventually apply it toward the mortgage.

It's best to obtain advance approval for the highest amount you are able to borrow, but never disclose to the seller or the seller's agent exactly how much you are actually willing to spend. MovePower's Toomey warns buyers that real estate agents are really on the side of the seller and have fiduciary responsibility to them. To protect themselves, buyers can retain their own exclusive representative, called a "buyer's broker." Your local agent may offer such services, but be aware that buyers' brokers who also work as sellers' brokers can sometimes end up on both sides of the deal. You can get a free referral to a broker who only represents buyers through Buyer's Resource (800 359-4092), a franchise organization. The buyer's broker is paid a portion of the real estate agent's fee, so there's no extra cost to you.

The Dos and Don'ts of Buying a Home

DO...

- A lot of research: Knock on potential neighbors' doors. Get the local high school's SAT average. Find out from the town clerk what similar homes in the area have sold for recently.
- Comparison-shop for a mortgage: Lenders and mortgage brokers are in hot competition and will sometimes shave points or whittle down the interest rate.
- Get a preapproved mortgage: This shows sellers you're truly interested in buying and the deal can be done quickly—helpful when negotiating a price.
- Know all fees: Nail down exactly what you're expected to pay at the closing.

DON'T...

- Assume a real estate agent represents you: Unless you're working with a so-called buyer's broker, the agent works for the seller.
- Discuss your maximum price: Never let the seller or the seller's agent know the exact amount you're willing to spend.
- Sign a contract without an inspection contingency: A clean bill of health from a home inspector or contractor avoids headaches later.
- Buy "unique": Avoid the fanciest house on the street or one of a strikingly different style from its neighbors. They often appreciate more slowly and may be hard to sell later.

DATA: JOSEPH EAMON CUMMINS *NOT ONE DOLLAR MORE!*, MOVEPOWER INC.

LOCATION, LOCATION. Now that you've talked to the neighbors, gotten your preapproval, and found a broker, you have to select the house. Look for one that suits your needs, but don't forget that someday you may want to sell it yourself. The most important thing: location. Two-thirds to three-fourths of a home's assessed value is based on the land beneath it. So buy in the nicest neighborhood you can, but not the fanciest house on the block. The local palace won't appreciate in price as quickly as the average home on the street. Buying an oddball is also a bad idea: It's not easy to sell a salt box in a row of colonials.

According to the National Association of Home Builders, the homes that sell easily these days average 2,100 square feet and feature a large kitchen and a "media room" for entertainment equipment—what used to be called a den. Most people want two baths: Three-bedroom homes with one bath are obsolete.

What buyers want depends to some extent on what part of the country they live in. In areas with cold winters, an attached garage may be a key factor, but in Florida you would probably consider a pool essential. How much you will end up paying for your home and its financing also depends on where you are. Atlanta is overbuilt and a buyer's market, but in Salt Lake City, where the population influx is astounding, prices are up 6% over last year, and sellers are calling the shots. Whatever your local market, smart, well-prepared buyers are today finding great deals from coast to coast. *Nanette Byrnes*

LISA MANNING

HOW TO TAKE YOUR 401(k) ON THE ROAD

SMART MONEY

In this time of uncertain job futures, an advantage of 401(k) plans is that you can take them with you. But you have to transport your nest egg with care to avoid penalties and keep your options open. There are essentially three choices: roll over your old 401(k) into a similar plan at your new job, transfer it into an individual retirement account, or leave it with your former employer. If you decide to move the money, the most important step is to file forms to make a "trustee-to-trustee" transfer.

As long as the 401(k) goes directly from your old plan to your new one or to the bank or brokerage that has your IRA, you're safe. But if the company you're leaving gives you the check, it will withhold 20% of your savings for the Internal Revenue Service. Then you'll have to make up that 20% so you can transfer the whole amount to the new plan. If you can't make up the shortfall, you'll be taxed on the 20% that was withheld—and liable for an extra 10% penalty if you're under age 59½. But if you move the entire amount within 60 days, you can file for a refund of the withheld funds on your next tax return.

When you switch jobs, most companies with 401(k)s will accept your money right away. But some require you to work for a year before they will take the funds or let you contribute. Others may not allow transfers even if they have a 401(k). In that case, you can leave your balance with your old company or roll it into an IRA. All employers are required by law to keep the 401(k)s of former employees until retirement or age 62 if there's at least $3,500 invested. You can't make tax-deductible contributions after you leave, but the money will continue to grow tax-deferred. And because it's in a large pool, you sometimes have access to better money managers and more attractive investments than you could afford on your own.

But there are compelling reasons to take the money and run. Some companies will limit your investment options after you depart—you may no longer be able to buy company stock or certain funds. Or too much of the money in your old plan may be tied up in company stock.

Switching to a new plan gives you a chance to cash out and diversify. Ask yourself if "the investment choices in the new plan are at least as good if not better than the choices you're leaving," advises Kevin Roach, a partner at Price Waterhouse. If the choices are similar, take the money with you.

If you can't transfer your plan and don't want to leave it with your former employer, you can roll it over into a "conduit" IRA. This must be a new account set up to hold only your 401(k) funds. As long as they're not mixed with any other monies, your nest egg can reside in the IRA indefinitely and still be rolled back into a 401(k) plan in the future. This is a good ploy if you're starting your own business; later you can transfer the funds to a Keogh or simplified employee pension. Since you may not have these plans set up for a while, a conduit IRA comes in handy, says Martin Nissenbaum, a partner at Ernst & Young.

To keep your options open, don't transfer 401(k) funds into an existing IRA. If aren't separate from money, you can't roll back into a 401(k). And out a 401(k), you los benefit of using five-yea ward-averaging to with funds at retirement. Th tion gives you a tax when you want to with your entire balance. sums are "most compel you have short-term ne the capital," says Roach you need the $100,000 your plan to buy a con Florida. Divide the $10 by five. The resulting $2 is treated legally as if it your only income. So $20,000 is taxed at 15%, bill of $3,000. You then ply $3,000 by five, for a tax bite of $15,000. If yo paid a straight tax o $100,000, your bracket be at least 31%, and you $31,000. Lump sums $750,000 are hit with excise tax, so the bene five-year averaging decl withdrawals grow above that amount.

SILVER LINING. Even if y just considering job-hop avoid taking a 401(k) Some companies let you row funds without pa taxes from your plan, us up to $50,000 or half of vested funds. Then you ually pay yourself back if you leave for anothe any outstanding loan will be considered a dist tion. It will be taxed as nary income—and you'l the 10% penalty if you'r der 59½.

One silver li behind all cautionary clou you switch job you're at leas you can cash your existing 4 without incurr penalty. Curre law requires that you leave company to c not that you ally retire. S times, age have its wards. *Pam*

When You Change Jobs

- Move the funds to your new employer's 401(k) plan, but be sure to make a "trustee-to-trustee" transfer to avoid tax penalties.
- Leave your money at your old job until retirement if you prefer its investment choices or if your new company won't accept your plan.
- If you can't bring your nest egg to your new job or are starting a business, set up a "conduit IRA," totally separate from other funds.

DATA: BUSINESS WEEK

IT'S 72° AND SUNNY. YOU'RE ON YOUR VORITE COURSE WITH YOUR FAVORITE FOURSOME. COULD IT POSSIBLY GET ANY BETTER THAN THIS?

one can improve those days on course when it just seems that 're in paradise.

et players who couldn't imagine ng more from the game say that have gotten more. A lot more.

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THE NEW LEADERS OF THE PACK

BMW'S NIMBLE ROADSTER: THE NEW R1100R

LEISURE

Back in 1975, I borrowed $700 from my Dad and bought a used Kawasaki motorcycle. Like others of my generation—I was 20—I found a bike brought a sense of freedom that four wheels just couldn't deliver. But after a couple of years, I sold the machine, went to work, and forgot about the thrill of two wheels, horsepower, and an open road.

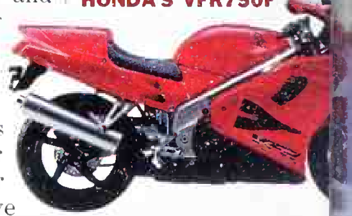
This spring, the old itch came back. Motorcycling is enjoying a resurgence, thanks in large part to returning riders who buy into the whole experience—bike, clothing, and accessories. In 1994, enthusiasts purchased some 300,000 new bikes, up almost 5% from 1993. And sales this year are expected to grow by at least that amount.

Things have changed since my riding days. You no longer choose a road bike just by color or engine size, as makers now offer distinct categories of specialized cycles. Sport bikes are lightning-fast, race-bred machines easily capable of triple-digit speeds. Sport-touring models feature high-tech engines and great handling but readily carry a passenger and saddlebags for comfortable, long-range travel. Standard motorcycles forgo aerodynamic bodywork and deliver all-around comfort and performance. Touring bikes are big—built for cross-country adventures. And cruisers, the largest-selling category epitomized by classic Harley-Davidsons, are constructed with wider saddles, higher handlebars, and a lower, more comfortable rider position.

For returning riders or newcomers alike, a safety course ought to be a top priority before making any purchase. The Motorcycle Safety Foundation (800 447-4700) offers beginner, intermediate, and advanced riding instruction around the country, with prices ranging from $50 to $200. The one- and two-day combination classroom and road courses are supported by local dealers who provide bikes and certified instructors.

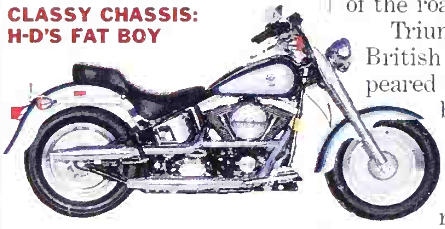
Once you're ready to roll, you'll have a dizzying choice of models built in the U.S., Japan, Germany, Britain, or Italy. Japanese bikes, led by Honda, Kawasaki, Yamaha, and Suzuki, boast brilliant colors, rocket acceleration, and precise handling. The Honda VFR750F ($8,699) is a sport bike that delivers rock-solid Honda reliability and quality without rattling your molars.

SOLID QUALITY: HONDA'S VFR750F



TOP-DRAWER. BMW imports a full line of bikes, and this year introduces the R1100R Roadster ($9,990). The Beemer sports a new, multivalve Boxer engine that delivers plenty of torque through a low-maintenance shaft drive. The bike handles nimbly on back roads or highways, thanks to a sophisticated chassis and suspension. Optional antilock brakes ($1,200) give the R1100R rider confidence and safety. Fit-and-finish is top-drawer, as is the complete line of BMW clothing and cycle accessories. Another plus: BMW reimburses new bike buyers for the Motorcycle Safety Foundation course.

CLASSY CHASSIS: H-D'S FAT BOY



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inder engine and sport
wheels, two-tone pain
lots of chrome. It ain't
tech, but head out of
on a Fat Boy and you'r
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British bike that
peared during the 19
back, with new
els suited for
speed sport
And the scre
red Italian
enjoys a loyal followi
its mix of power an
nache. Give me any of
bikes, a helmet, a le
jacket, an open road,
full tank of gas, and
time, I'll happily moto
to my youth. *Tom*

WORTH NOTING

■ **INVESTMENT INSIGHTS.** Yet another free mutual-f
brochure, this time from Smith Barney. You can ge
copy of *Finding Your Way: A Guide to Mutual Fu
Investing* by calling 800 EARNS-IT, ext. 3911.

■ **WORKER WORKOUTS.** If you tend to stiffen up on
planes or suffer aches and pains from sitting for lo
hours at a computer, you might take a gander at *G
in Shape* ($15, Shelter Publications, 415 868-0280).
book provides 32 illustrated exercise routines to ke
you in shape while on the road or on the job. The p
grams include desk stretches, hotel-room workouts
airplane stretches.

HOW MANY IMAGINARY CHAMPIONSHIPS HAVE YOU PLAYED?

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17th hole at The TPC at Sawgrass, site of THE PLAYERS Championship and a 1995 Partners Classic tournament.

ver played an imaginary mpionship while at the office? k a five footer to win a make eve TOUR championship?

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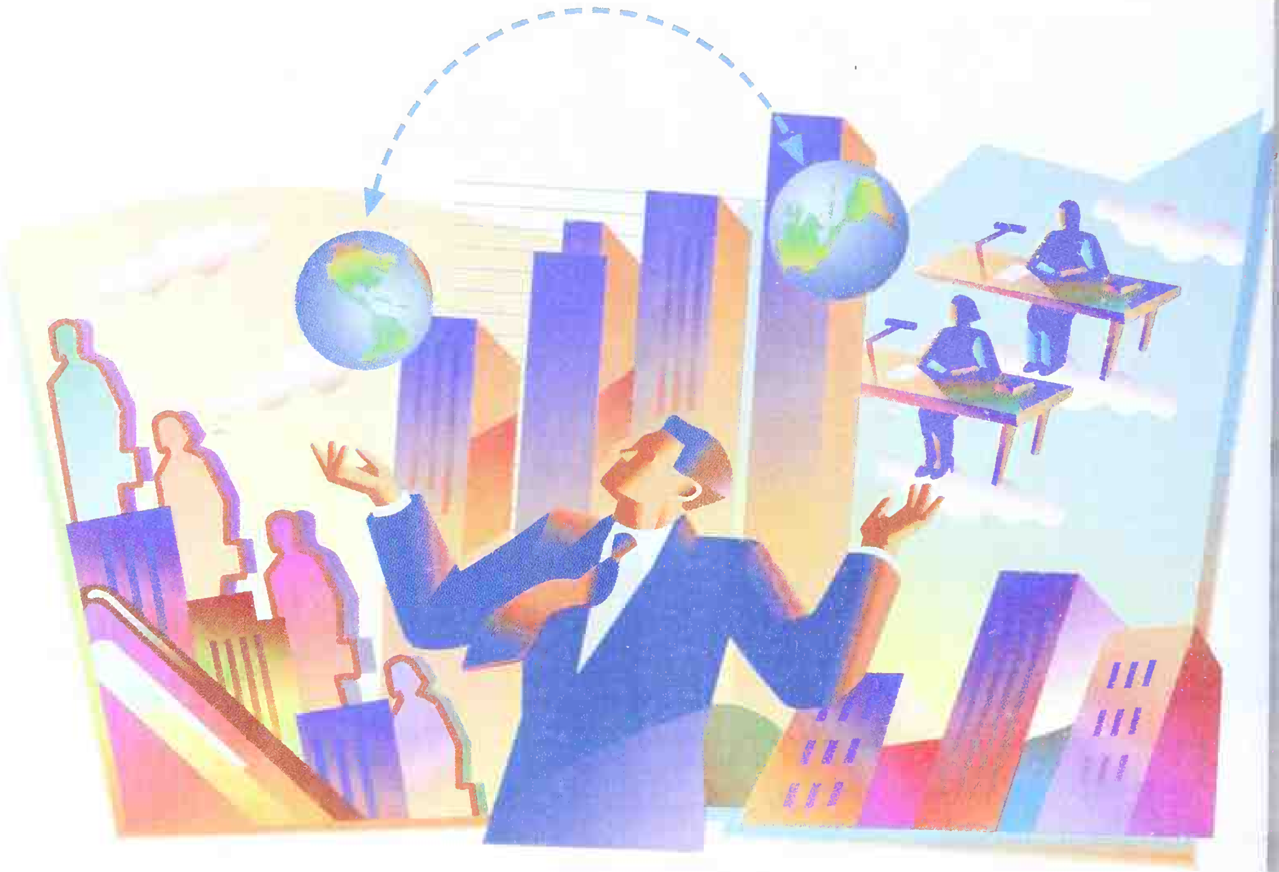

Your Business Is Growing. Congratulations. Who's Going To Do All The Work?

You've all been working hard. And it's paying off. Handsomely. In fact, your business is doing so well, it's actually created a pleasant problem – you need more help. But you don't just want bodies in offices. You want people who can step in, take charge, and do their jobs as well as the people you already have.

That's where we come in. We're your staffing partner. Management Recruiters International, the nation's leader in permanent, flexible, and right-fit staffing solutions. With over 600 offices and 3,000 recruiters, we're poised with our comprehensive network to fulfill your permanent placement needs.

Our Sales Consultants® division specializes in sales professionals. For "information systems" personnel, turn to our CompuSearch® specialists. OfficeMates 5® helps you find administrative and office support personnel. And our Management Recruiters® division has more search specialists for more industries than anyone.

You see, at MRI, we're here to help you grow. Especially when you're growing.

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CompuSearch

OfficeMates 5

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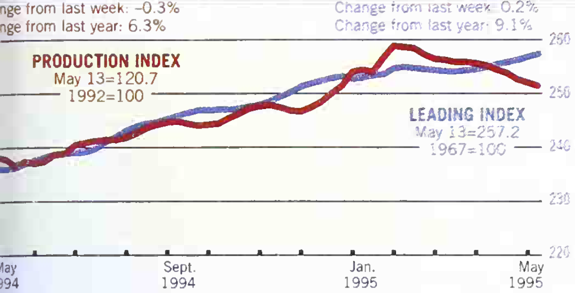
usiness Week Index

DUCTION AND LEADING INDEXES



xes are 4-week moving averages

roduction index fell during the week ended May 13. Before calculation four-week moving average, the index dropped to 119.4, from 120.7 in evious week. Cuts in the seasonally adjusted output levels of autos and led the decline.

ading index increased in the latest week. The unaveraged index also o 258.2 from 257.7. Higher stock prices and lower bond yields are the index.

ucton index copyright 1994 by The McGraw-Hill Companies   BW leading index copyright 1994 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (5/20) thous. of net tons	1,986	2,016#	4.3
AUTOS (5/20) units	136,972	138,317r#	–9.1
TRUCKS (5/20) units	121,410	119,218r#	1.2
ELECTRIC POWER (5/20) millions of kilowatt-hrs.	NA	56,459#	NA
CRUDE-OIL REFINING (5/20) thous. of bbl./day	14,327	13,973#	2.4
COAL (5/13) thous. of net tons	19,232#	19,306	–3.9
PAPERBOARD (5/13) thous. of tons	884.3#	873.5r	3.3
PAPER (5/13) thous. of tons	846.0#	846.0	8.3
LUMBER (5/13) millions of ft.	424.7#	426.2	–7.4
RAIL FREIGHT (5/13) billions of ton-miles	23.6#	23.8	1.7

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (5/19) S&P 500	524.35	524.36	16.1
ORATE BOND YIELD, Aaa (5/19)	7.60%	7.69%	–3.7
TRIAL MATERIALS PRICES (5/19)	113.7	114.5	NA*
ESS FAILURES (5/12)	NA	NA	NA
ESTATE LOANS (5/10) billions	$477.8	$476.8r	11.1
Y SUPPLY, M2 (5/8) billions	$3,613.0	$3,615.5r	1.7
L CLAIMS, UNEMPLOYMENT (5/6) thous.	366	371	–3.9

S: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on s failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (5/24) $/troy oz.	383.100	382.900	–0.7
STEEL SCRAP (5/23) #1 heavy, $/ton	142.50	142.50	13.1
COPPER (5/20) ¢/lb.	130.3	129.0	20.9
ALUMINUM (5/20) ¢/lb.	84.0	84.5	30.2
COTTON (5/20) strict low middling 1-1/16 in., ¢/lb.	103.04	102.31	31.3
OIL (5/23) $/bbl.	19.75	19.98	11.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (5/23)	5.96%	6.01%	4.22%
ERCIAL PAPER (5/23) 3-month	6.06	6.06	4.55
FICATES OF DEPOSIT (5/24) 3-month	5.99	6.02	4.49
MORTGAGE (5/19) 30-year	8.10	8.10	8.65
TABLE MORTGAGE (5/19) one-year	6.15	6.11	5.60
(5/24)	9.00	9.00	7.25

: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (5/24)	87.28	86.61	104.65
GERMAN MARK (5/24)	1.44	1.44	1.65
BRITISH POUND (5/24)	1.58	1.57	1.51
FRENCH FRANC (5/24)	5.11	5.11	5.63
ITALIAN LIRA (5/24)	1672.3	1654.5	1594.1
CANADIAN DOLLAR (5/24)	1.36	1.36	1.39
MEXICAN PESO (5/24)[3]	6.045	5.925	3.285

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

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ata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn.   2=Southern Forest Products Assn.   3=Free market value   NA=Not available   r=revised   NM=Not meaningful

HE WEEK AHEAD

MER CONFIDENCE

, May 30, 10 a.m. ▶ The Confer- oard's May confidence index fell to m April's 105.5. That's the median of economists polled by MMS Inter- , one of the McGraw-Hill Cos.

DOMESTIC PRODUCT

day, May 31, 8:30 a.m. ▶ The ce Dept. is expected to revise first- GDP growth to an annual rate of 3%, 2.8% pace first reported.

ME SALES

day, May 31, 10 a.m. ▶ New kely sold at an annual rate of) in April, up from 577,000 in March. A drop in mortgage rates is spurring home buying.

PERSONAL INCOME

Thursday, June 1, 8:30 a.m. ▶ The MMS survey forecasts that personal income rose 0.3% in April, half the 0.6% gain of March. Consumer spending likely rose 0.2% in April, after a 0.5% rise.

NAPM SURVEY

Thursday, June 1, 10 a.m. ▶ The business index of the National Association of Purchasing Management probably fell to 50.5% in May, from 52% in April. The expected reading is near the 50% mark, at which point industry is treading water.

EMPLOYMENT

Friday, June 2, 8:30 a.m. ▶ The MMS median forecast expects that nonfarm payrolls added 163,000 workers in May, rebounding from the 9,000 drop in jobs in April. The unemployment rate probably slipped to 5.7% in May, from 5.8% in April.

LEADING INDICATORS

Friday, June 2, 8:30 a.m. ▶ The composite index of leading indicators probably fell 0.3% in April, the third consecutive decline.

CONSTRUCTION SPENDING

Friday, June 2, 8:30 a.m. ▶ Construction spending was likely unchanged in April, after falling 0.4% in March.

This Week, Online

Business Week presents frequent live conferences on America Online. It's your opportunity to ask questions about features from the magazine.

BusinessWeek ONLINE

Sunday

Blast off into the frontiers of online investing with BW Associate Editor Gary Weiss. Read his Cover Story in this issue–and then discuss his cyberspace discoveries online. **May 28**

9 p.m. EDT in the Globe

Tuesday

John Kotter, Harvard B-school professor widely known for his expertise on leadership, talks about his latest book, *The New Rules*. **May 30**

9 p.m. EDT in the Bowl

Thursday

Quantum physics, chaos theory–and management? Margaret Wheatley, author of *Leadership and the New Science*, tells how they relate, in an interview with BW's John Byrne. **June 1**

9 p.m. EDT in the Globe

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

For a free trial diskette including 10 free hours on AOL, call 1-800-641-4848 and mention Business Week.

AMERICA Online

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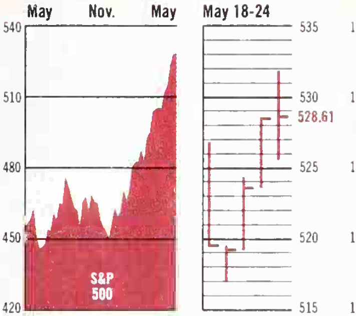
nvestment Figures of the Week

IENTARY

tion? What correction? The
nes industrial average
d 82 points on May 18, and
ars proclaimed that the long-
e pullback had begun. But
l-off brought in bargain-
s, and by May 24, both the
nd the Standard & Poor's
ock index recouped and
d new highs. Also on May 24,
vernment reported a huge fall
able goods orders. That trig-
a powerful bond rally, but it
ised concerns about whether
onomy's "soft landing" might
to a recession.

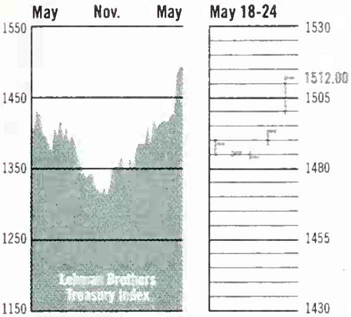
STOCKS



52-week change
+15.8%

1-week change
+0.3%

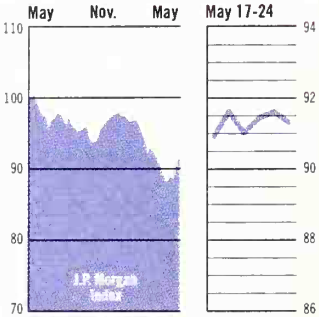
BONDS



52-week change
+6.8%

1-week change
+1.2%

THE DOLLAR



52-week change
-8.7%

1-week change
+0.4%

RKET ANALYSIS

TOCKS	Latest	% change Week	% change 52-week
ONES INDUSTRIALS	4438.2	0.4	18.2
E COMPANIES (S&P MidCap Index)	190.1	-0.2	11.5
COMPANIES (Russell 2000)	272.4	-0.1	9.7
MPANIES (Russell 3000)	300.4	0.2	14.3

IGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
N (FINANCIAL TIMES 100)	3327.3	0.9	10.1
(NIKKEI INDEX)	15,970.8	-3.0	-22.7
TO (TSE COMPOSITE)	4441.2	1.6	3.5

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.83%	5.83%	4.26%
30-YEAR TREASURY BOND YIELD	6.74%	6.86%	7.36%
S&P 500 DIVIDEND YIELD	2.55%	2.52%	2.79%
S&P 500 PRICE/EARNINGS RATIO	16.3	16.2	20.1

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	477.9	476.3	Positive
Stocks above 200-day moving average	69.0%	71.0%	Neutral
Speculative sentiment: Put/call ratio	0.67	0.62r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.26	1.16	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

IONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
ICONDUCTORS	25.3	68.7	NATIONAL SEMICONDUCTOR	46.7	42.0	$27^{7}/_{8}$
IEBUILDING	24.8	3.5	PULTE	32.9	16.0	$27^{1}/_{4}$
PUTER SOFTWARE	11.2	52.5	MICROSOFT	18.0	81.1	$88^{1}/_{2}$
CIALTY CHEMICALS	11.2	26.4	W.R. GRACE	21.2	55.6	63
HINE TOOLS	10.6	3.0	GIDDINGS & LEWIS	17.4	-22.0	$17^{3}/_{4}$

ONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
ISPORTATION SERVICES	-6.8	-9.0	PITTSTON SERVICES	-16.1	-7.8	$23^{1}/_{2}$
UFACTURED HOUSING	-5.7	-2.9	FLEETWOOD ENTERPRISES	-7.2	-3.5	$20^{7}/_{8}$
S	-5.1	-23.0	UNITED HEALTHCARE	-10.2	-24.5	$36^{1}/_{4}$
URE TIME	-3.6	-11.1	BRUNSWICK	-10.2	-24.2	$18^{3}/_{4}$
I MINING	-3.5	-7.0	HOMESTAKE MINING	-9.7	-20.3	$16^{1}/_{4}$

UAL FUNDS

MORNINGSTAR INC.

RS

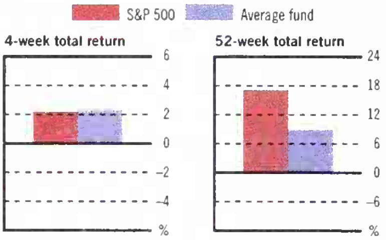
ek total return	%
LITY SELECT ELECTRONICS	17.6
MASTER EMERGING AMERICAS	13.9
MAN COMMUNICATIONS & INFORM. A	13.7

total return	%
MAN COMMUNICATIONS & INFORM. A	76.4
NCE TECHNOLOGY A	60.9
ITY SELECT ELECTRONICS	58.1

LAGGARDS

Four-week total return	%
DFA JAPANESE SMALL COMPANY	-10.4
UNITED SERVICES GOLD	-8.4
T. ROWE PRICE JAPAN	-8.3

52-week total return	%
MONITREND GOLD	-41.8
STEADMAN OCEANOGRAPHIC TECHNOLOGY	-36.3
AMERICAN HERITAGE	-34.2



TIVE PORTFOLIOS

DRI/McGRAW-HILL

mounts represent the
value of $10,000
one year ago
portfolio

ages indicate
total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$11,911	**$11,457**	**$11,127**	**$10,522**	**$9,845**
+0.08%	+0.03%	-1.59%	+0.17%	-0.48%

---

n this page are as of market close Wednesday, May 24, 1995, unless otherwise indicat- y groups include S&P 500 companies only; performance and share prices are as of market close May 23. Mutual fund returns are as of May 19. Relative portfolios are valued as of May 23. A more detailed explanation of this page is available on request. r=revised NA=Not available

TRADE: WHY THE EXPERTS ARE WRONG

Discussions about trade have a way of degenerating into economic mumbo jumbo. Well aware that most people don't know the first thing about how to translate dollars into yen, much less figure out why the trade deficit is so large, some economists and trade mavens frequently turn to elaborate economic explanations that confuse rather than clarify.

The current dispute between Japan and the U.S. is no exception. Having been lambasted for contemplating the imposition of stiff tariffs on Japanese luxury cars and thereby threatening the end of the world's free-trade system, the U.S. is being skewered, yet again, for mismanaging its own economic house. In the national income accounts, the experts opine, savings equals investment, and without enough savings there's not enough investment, and without enough investment there isn't enough growth. U.S. savings are too low, the budget deficit too high, consumption exceeds income, and imports of goods and capital outweigh exports. Hence the trade deficit and the capital-account deficit. The Japanese, by contrast, are champion savers, which explains their mammoth trade surplus.

True, the U.S. savings rate trails that of Japan. But there are two problems with this cascade of explanations. First, economics-textbook truisms are about as useful as observing that a rose is a rose is a rose. They don't say anything about cause. For instance, if America exported more to Japan, incomes would be higher, and Americans might save more. And the Japanese might well save less if they could spend more income on cheap imports.

Second, the analysis is tired. Look at what has happened in America over the past decade. The dollar has plunged 64% against the yen since 1985. The budget deficit will amount to about 2.6% of gross domestic product this year, down 5.4% in 1985. There has been an investment boom, produ ity is up, and Corporate America is piling on the pr Yet the U.S. still has a yawning trade deficit with Japan still would even if it did everything the experts recomme shore up savings and cut the budget deficit.

That's because economics is not the issue here. It's of market access, pure and simple. The mercantilist Jap export to the world while shielding their home market. ica keeps trying to break that market open. The Jap meanwhile, retain virtually unfettered access to the market. Lawrence Chimerine, managing director at the nomic Strategy Institute, estimates that if Japan's ma were to be totally open, the annual U.S. trade deficit wi pan would amount to only $15 billion, instead of the $64 it is today.

To be sure, autos may not be the cleanest unfair case the U.S. has against Japan. American carmakers push harder to offer right-hand-drive models and could more of an effort to open dealerships in Japan. And it' the unilateral action seems to undercut the new World Organization—although the U.S. has just made clear abide by the WTO's ruling.

No less a free trader than the Scottish economist Smith wrote that when a foreign nation imposes "high or prohibitions" on imports, then "revenge naturally di retaliation." That is, "we should impose the like duti prohibitions upon the importation of some or all of manufactures." The object? "Repeal" of those prohib Fairness and reciprocity, not macroeconomics, are the at hand.

THE SEC NEEDS TO POLICE I-WAY INVESTING

There's a brave new world that Congress couldn't have envisioned when it created the Securities & Exchange Commission in 1934. Now in its infancy, the world of online investing promises to democratize the research and trading activity that Wall Street firms have worked assiduously to shroud in mystery, in order to keep investors large and small in their thrall. It's about time.

As our intrepid Net-surfer Gary Weiss found, online investing offers a leg up to the little guy who's willing to invest his time and energy (page 64). Information about companies, products, and stocks—free, unadulterated, and largely unbiased by the views of conventional research analysts—ricochets across the bulletin boards of the I-Way. Prospectuses can be downloaded in a trice. Stock market letters, replete with plugs and pans, can be pored over. And stocks may be bought and sold. For now, most big-name firms have steered clear of the Net—which makes plain sailing for the few discount brokers that operate through online services. This flash in the pan: The number of online brokerage accou expected to double in the next three years, from 600, 1.3 million.

But the virtual world of investing isn't without i falls. Just as in the real world, it pays to be cautious. I misinformation—often obvious and easily spotted—pass company or product news. More serious is the potenti abuses by scam artists. Boiler-room antics are easily ap to the I-Way. So the SEC, which now has just a han folks perusing investor bulletin boards, needs to keep a watchful eye on this growing phenomenon. Mean the budget-cutters, led by Senator Phil Gramm (R are suggesting that the budget for the SEC, now a $ million, should be reined in. But when a whole new of investing is aborning, this is no time to hamstri agency.

WT GINGRICH Q&A / TAX REFORM: WHICH PLAN IS BEST?

BusinessWeek

E 12, 1995 A PUBLICATION OF THE McGRAW-HILL COMPANIES $2.95

The Future of MONEY

E-cash, a new kind of electronic money, is starting to compete with the current system of banks, checks, and dollars. E-cash is very convenient for consumers. But it could be a nightmare for regulators. PAGE 66

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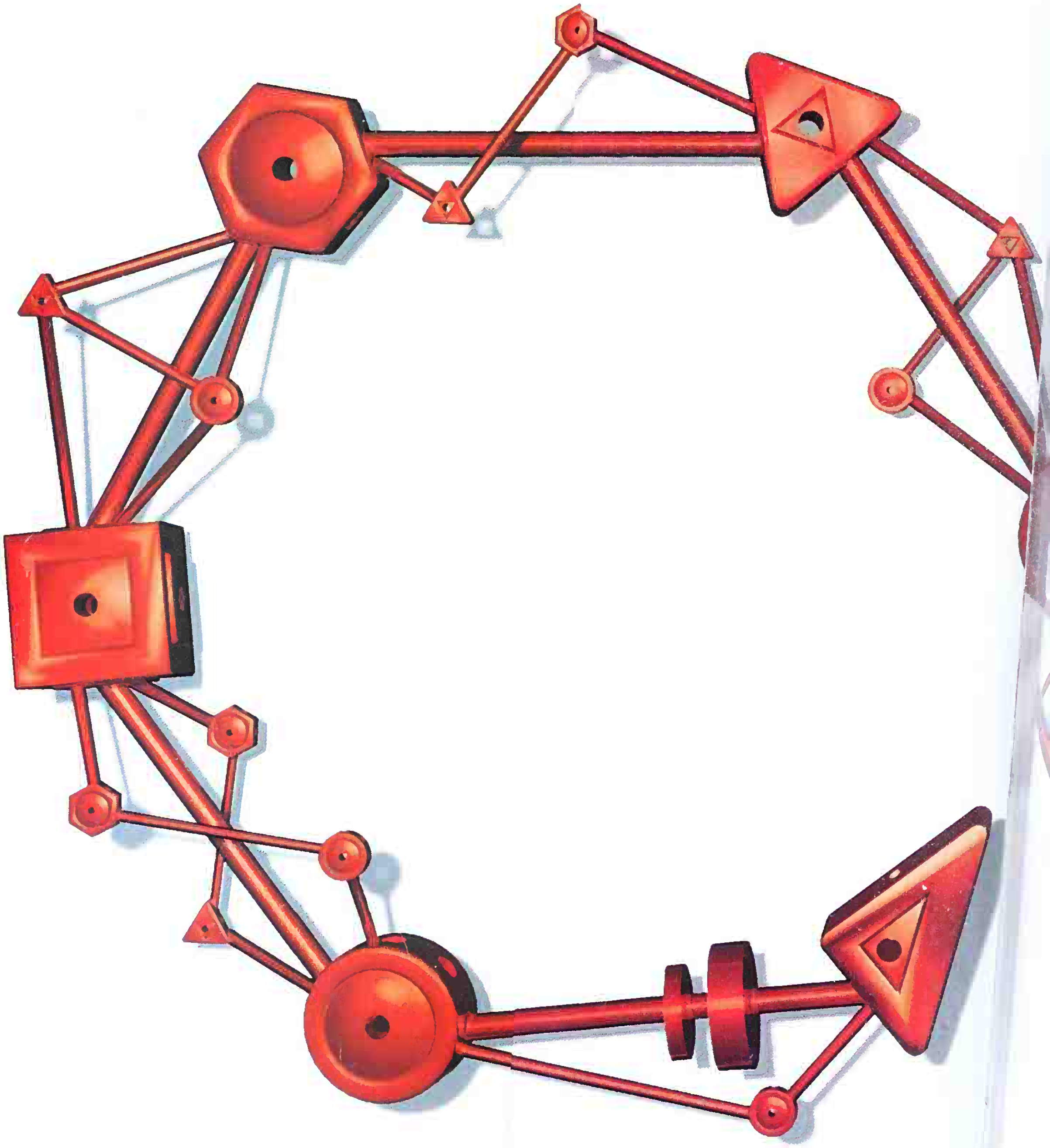
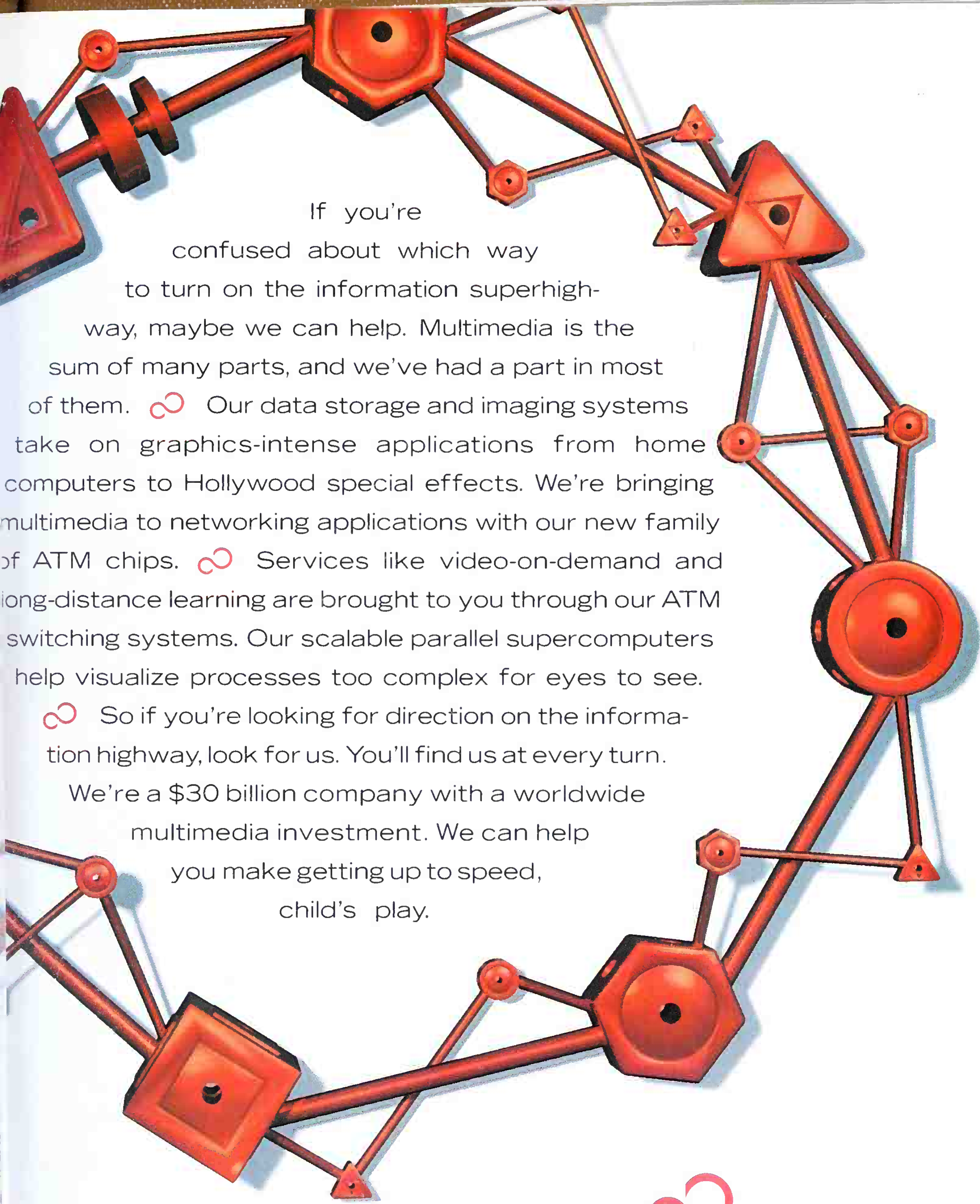
EMILE WYNN
900 PALOMA AV
BURLINGAME CA 94010-3652

HOW TO MAKE
MULTIMEDIA CONNECTIONS
CHILD'S PLAY.



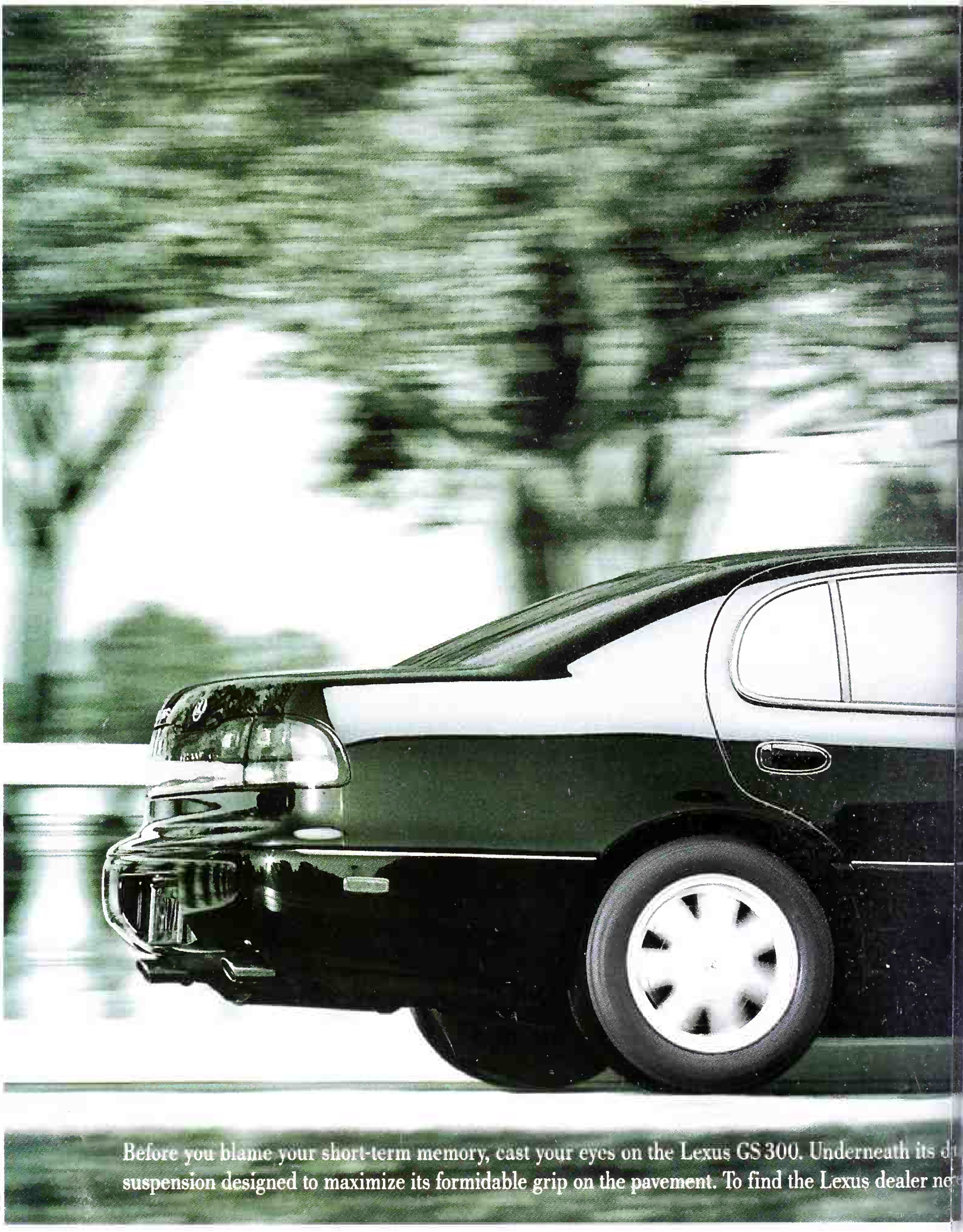


If you're confused about which way to turn on the information superhighway, maybe we can help. Multimedia is the sum of many parts, and we've had a part in most of them. ∞ Our data storage and imaging systems take on graphics-intense applications from home computers to Hollywood special effects. We're bringing multimedia to networking applications with our new family of ATM chips. ∞ Services like video-on-demand and long-distance learning are brought to you through our ATM switching systems. Our scalable parallel supercomputers help visualize processes too complex for eyes to see. ∞ So if you're looking for direction on the information highway, look for us. You'll find us at every turn. We're a $30 billion company with a worldwide multimedia investment. We can help you make getting up to speed, child's play.

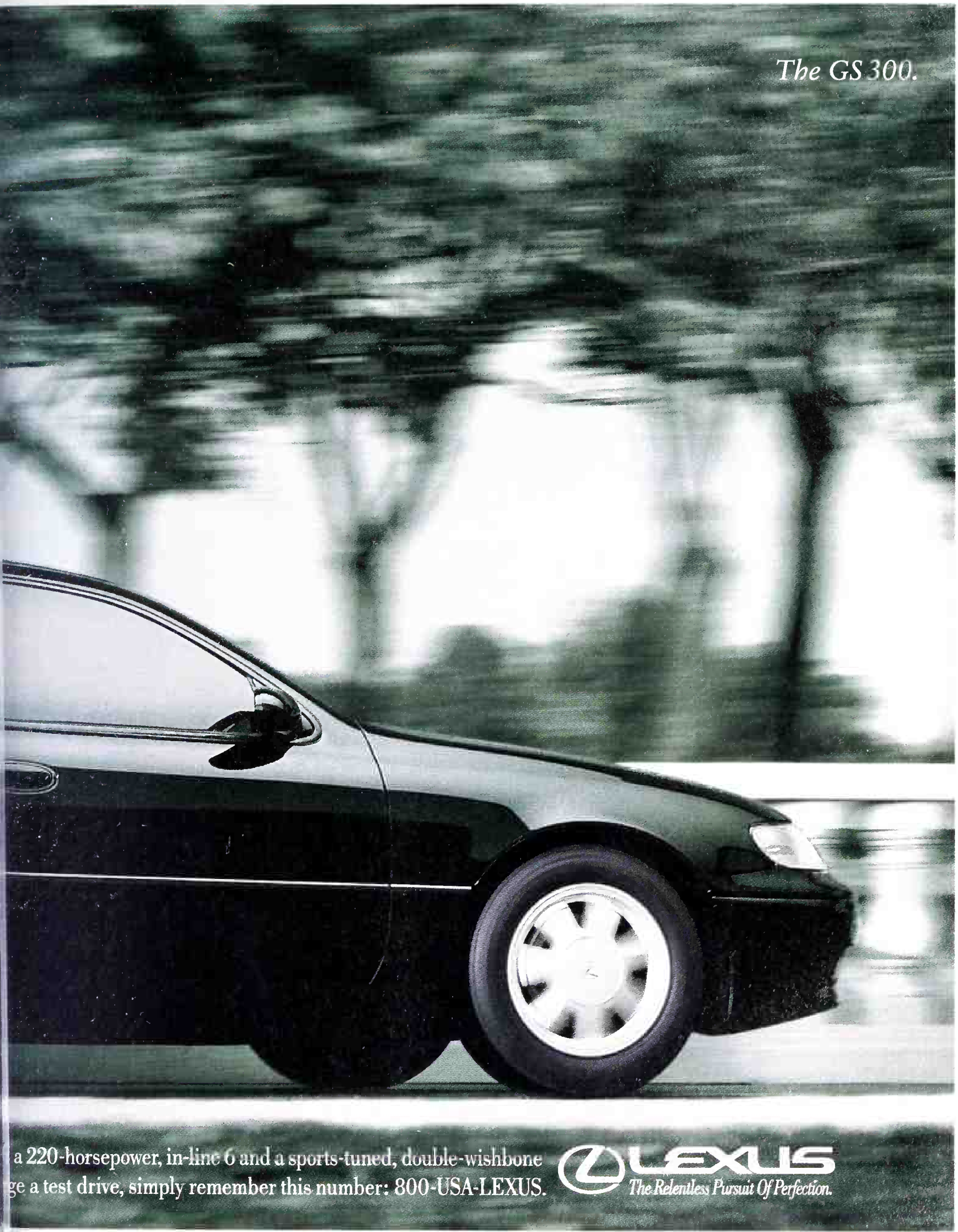
FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

Every day you see 3,976 cars on the road. Remember any of them?



Before you blame your short-term memory, cast your eyes on the Lexus GS 300. Underneath its d
suspension designed to maximize its formidable grip on the pavement. To find the Lexus dealer ne



a 220-horsepower, in-line 6 and a sports-tuned, double-wishbone
ge a test drive, simply remember this number: 800-USA-LEXUS.

LEXUS
The Relentless Pursuit Of Perfection.

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BusinessWeek
JUNE 12, 1995
Qui

COVER S

THE FUTU OF MONEY

The global r cyberspace i creating a n currency, as startups, ba software gia to mint mon world online

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Cover Story

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Selling the appliance maker's money-losing Hoover Europe subsidiary has analysts cheering

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COVER: IMAGING BY JAIME BEAL HAMBREW [illegible] REINFELD, PHOTOGRAPHS BY PHOTODISK, INC. (SKY), IMAGE BANK (HAND). PHOTOGRAPH ABOVE BY RICHARD MORGANSTEIN

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These days, the Japanese are sending out for American page 61

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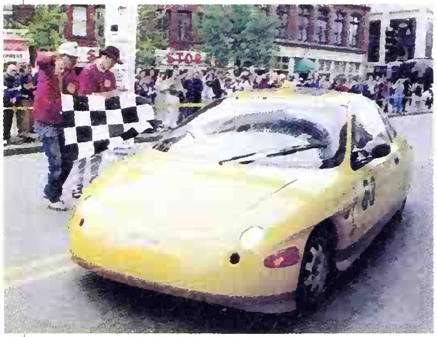
Up Front

EDITED BY MICHAEL MANDEL, WITH OLUWABUNMI SHABI

WHEELS

WILL PETE WILSON ZAP ELECTRIC CARS?

CALIFORNIA GOVERNOR PETE Wilson may pull the plug on the Golden State's clean-air rule forcing a reluctant Detroit to sell electric vehicles there by 1998. The Big Three auto makers fret that they will lose millions because clean-running electric cars will cost too much and can't travel far, so consumers won't buy them. A source close to the Wilson camp says he "wants to maintain the overall clean-air program, but he's taking a serious look at whether this one component makes sense." And if not, "there will be some tradeoffs, bringing in other technologies."


AN EV: *Is California dreaming?*

Wilson can't change federal air standards that led to the electric-car mandate. But his appointees control the 11-member California Air Resources Board, which under his predecessor ordered that 2% of new vehicles sold in the state be electric by 1998, and 10% by 2003. They would have to find another way to meet the U.S. air standards.

Detroit figures Republican Wilson is worried the EV mandate could prove a liability in a Presidential campaign among regulation-hating conservatives. Wilson aides, however, deny that there are political motives here. *David Woodruff and Eric Schine*

REALITY CHECK

ECONOMIC SOOTHSAYERS are well known for their confident predictions on the course of interest rates. Now comes the latest consensus from the Blue Chip Financial Forecasts—a survey of 50 economists and financial institutions. According to this prognostication, interest rates on 30-year Treasury bonds will be about 7% during the spring of 1996. That's just slightly higher than current levels.

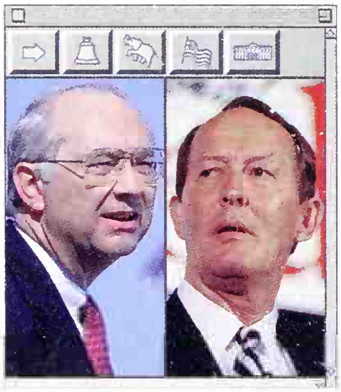
IN REALITY, predicting interest rates is much like shooting a gun out of a window and hoping a game bird flies by. Forecasters have missed all major interest-rate moves of the past three years, and long-term studies show no signs that economists do any better than chance. The reason? Long-term rates are set in financial markets, which are driven largely by investors' expectations. While economists are good at forecasting fundamentals such as gross domestic product and inflation, they can't track market psychology. With long-term rates, they assume tomorrow will be much like today.

TALK SHOW “We have been Chrysler's largest sharehol for nearly five years and remain committed to maximizing ue for all shareholders.” *—Alex Yemenidjian, an aide of Kir Kerkorian, who withdrew his $20 billion bid for Chrysler*

CAMPAIGN '96

MY WEB CAN LICK YOUR WEB

A WEB WAR IS BREWING among GOP White House hopefuls. Phil Gramm and Lamar Alexander are the first contenders to open home pages on the Internet. While others may follow, the two pioneering cyberpols are bickering over bragging rights. Ex-Education Secretary Alexander (http://www.Nashville.net/ ˜ lamar), who totes a laptop, says his Web site opened on May 12, with no fanfare. However, Texas Senator Gramm (http://www.gramm96.org) counters that his was the first publicl nounced, on May 23.


ONLINE: *Gramm, Alexander*

Alexander's Internet box includes position pa and v footage ing to hi auguratio Tenness governo The p border plaid, like his nel sh Gramm crows more pe (10,000- have use site than of Alexander (who cl 8,500). Gramm includes s bites and his voting re Users also can sign up for both candidates' paigns. *Richard S. Dun*

BILL'S BUNCH

HE'S NO LAURA TYSON

LAURA TYSON MAY HAVE shifted to a lower-profile job, but don't look for her to fade from public view. One reason: Her likely successor as chair of the Council of Economic Advisers is Joseph Stiglitz. While he's an eminent economist, Stiglitz prefers discursive academic exchanges over the sound bites demanded of the Clinton Administration's frontline economic spokesperson. Tyson, an articulate economist from Berkeley, has moved to the National Economic Council, which coordinates economic policymaking in the Cabinet. Robert Rubin, who moved from the NEC to become Treasury Secretary also command airtime b tue of his clout.

STIGLITZ: *Likely next CEA head*

Stiglitz, 52, on leave Stanford University, is sidered a pot Nobel prizew for breakthr work on the of informati the markets credit and g as well as st of public fi and taxation during his years with th ministration, has acquired as a "mad p sor," according to one House aide. "His eco advice is fabulous. Bu ask yourself: Is this th you want out in front cameras?" *Mike McN*

(CLOCKWISE FROM TOP LEFT) PHOTOGRAPHS BY RUSATY AP WIDE WORLD GAMMA-LIAISON; LISA QUINONES/BLACK STAR; ILLUSTRATIONS BY LISA KNOUSE BRAIMAN/BW

Tiny had the hard part.
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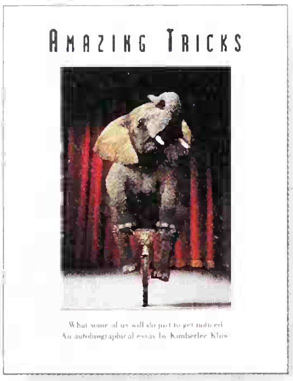
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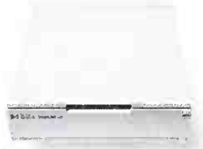
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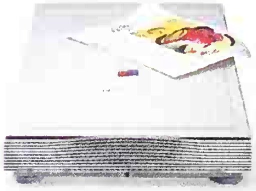
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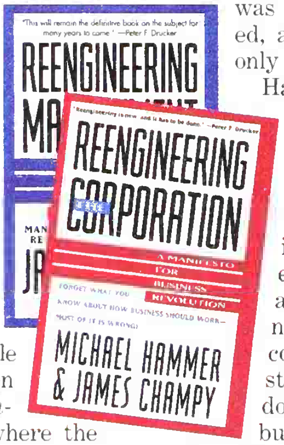
Up Front

BOOK-OF-THE-DAY CLUB

REENGINEERING ROYALTIES

THE REENGINEERING GURUS seem to have streamlined the book-writing process as well. Two years after its publication, *Reengineering the Corporation*, coauthored by Michael Hammer and James Champy, is No. 2 on the BUSINESS WEEK paperback Best-Seller List, and two progeny are on the list as well. *The Reengineering Revolution* is Hammer's "how to" sequel, while Champy has written *Reengineering Management* to show where the first book went wrong. Also, Hammer has yet another book due out this fall.

What's going on? The original *Reengineering*'s phenomenal sales of over 2 million copies in 17 languages haven't exactly discouraged sequel-writing. According to Hammer, reengineering has become "an institutionalized movement" about which "there's a great hunger for useful information." To meet it promptly, *The Reengineering Revolution*, for example, was written, edited, and printed in only six months.


REENGINEERING MA
REENGINEERING THE CORPORATION
A MANIFESTO FOR BUSINESS REVOLUTION
MICHAEL HAMMER & JAMES CHAMPY

Has the demand peaked? Lisa Berkowitz, a spokeswoman for HarperCollins, which is the publisher for Hammer and Champy, notes that the concepts are still trickling down to smaller businesses and that the authors are ever in the process of discovering "how reengineering is changing, depending on its application." In short, you ain't seen nothin' yet. *Hardy Green*

I-WAY PATROL

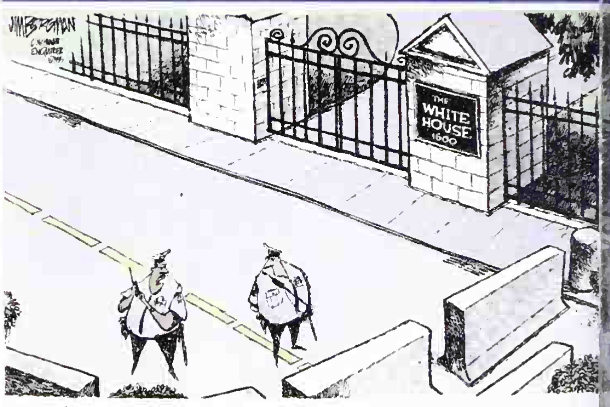
THE ONLINE TAXMAN COMETH

CAN TAX COLLECTORS GET their hooks into cyberspace? As more companies do business online, states are slavering. Their problem is that a seller cannot be forced to collect sales tax for a state unless it has a "physical presence" there, such as employees or property, notes Michael Lippman, partner at KPMG Peat Marwick. The same rule applies to catalog sellers such as L. L. Bean, which only collects sales tax from Maine residents.

Some states are mulling ways to expand the definition of presence to customers' PC screens. "As commerce goes more electronic, there's a lot of revenue escaping taxation," says Michael Goral, an attorney at the Multistate Tax Commission, which coordinates state tax policies. "We're not looking to tax anything new," says Tim Leathers, the Arkansas official who chairs the MTC. "We're just following changes in the industry."

But don't tell that to online merchants. "The MTC is flirting with saying that a flow of electrons is physical presence," contends Robert Levering, senior vice-president of the Direct Marketing Assn. "What they want to do is extend it to metaphysical presence." □

DRAWN & QUARTERED



"IT'S SENATOR DOLE...HE WANTS TO MAKE SURE WE CAN STILL GET A MOVING VAN IN HERE..."

INFLUENCE PEDDLERS

WHO SAID THE POOR DON'T HAVE LOBBYIS

FOOD COU
D COUPON

FOOD STAMPS: *Saved by agri*

AS THE GOP CONGRESS attacks social spending, effective opposition is coming from Corporate America's poverty lobby—companies that gain from federal spending on the poor. For example, the $1.3 billion energy-assistance program seemed dead after the House passed its 1995 spending cuts. But utilities pressured Northeastern senators, and $1 billion emerged from House-Senate negotiations. "We reminded them that this is a program to which we attach a lot of importance," says John Sparkman, a lobbyist for Pennsylvania Power & Light.

Likewise, the food industry stopped the $27 billion food-stamp program from
turned over to the st
thus handing the GOP o
its few welfare reform
backs. Farmers and pr
sors don't want governor
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cash, which could cut
sales. Says a Democrat
staffer: "We've just g
take our friends w
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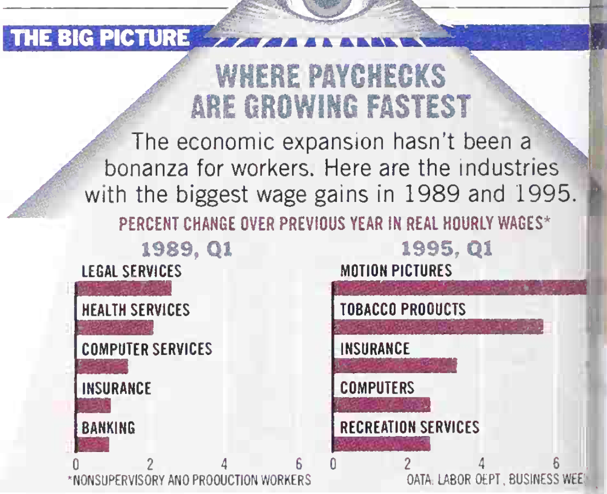
Mike McN

THE BIG PICTURE



FOOTNOTES Square feet of space in average new single-family home: 1984: 1,780; 1994: 2,100

CLOCKWISE FROM UPPER RIGHT: PHOTOGRAPH BY PAUL HOWELL/GAMMA LIAISON. CARTOON BY JIM BORGMAN/CINCINNATI ENQUIRER. CHART BY RAY VELLA/BW. ILLUSTRATION BY ROB DOYLE/BW

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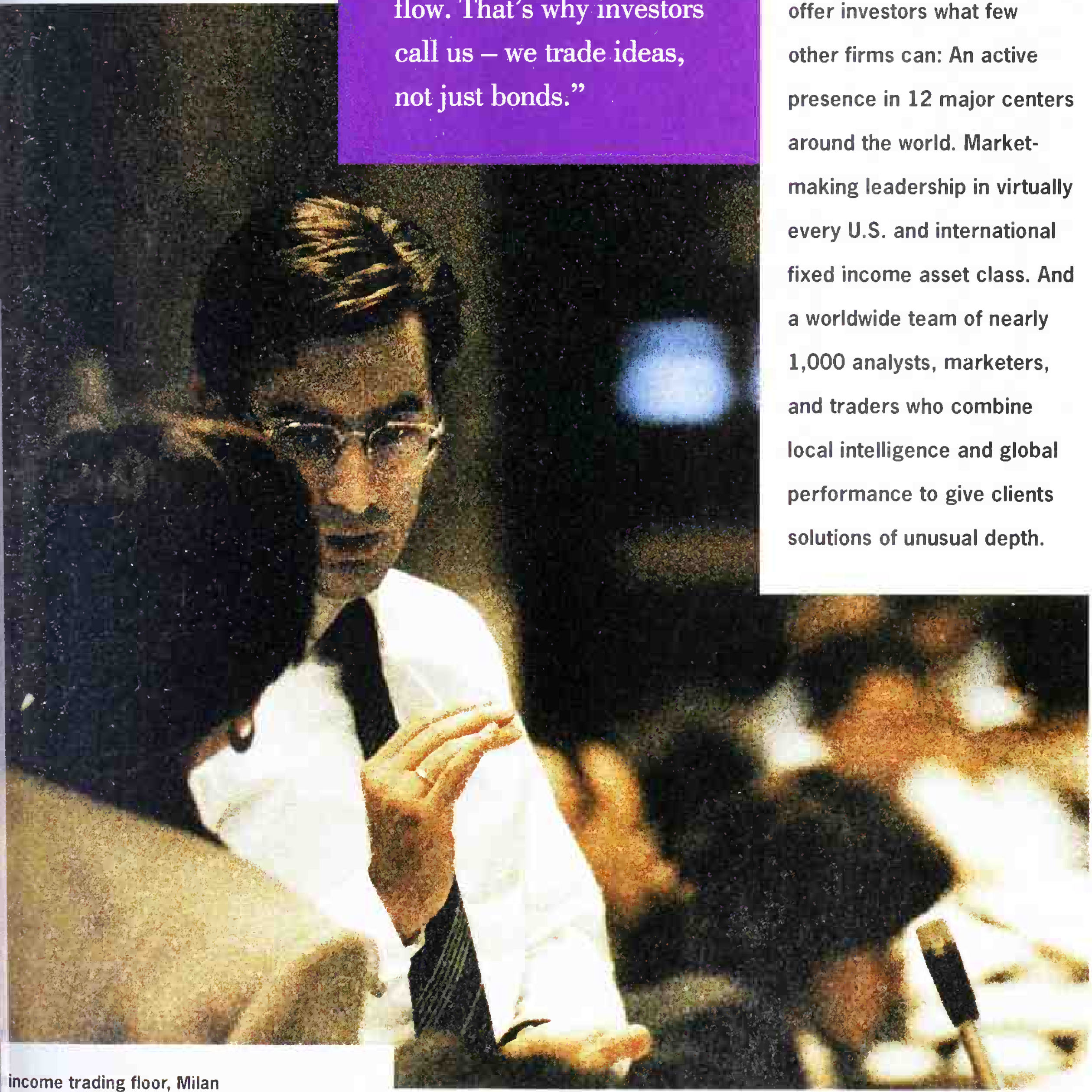

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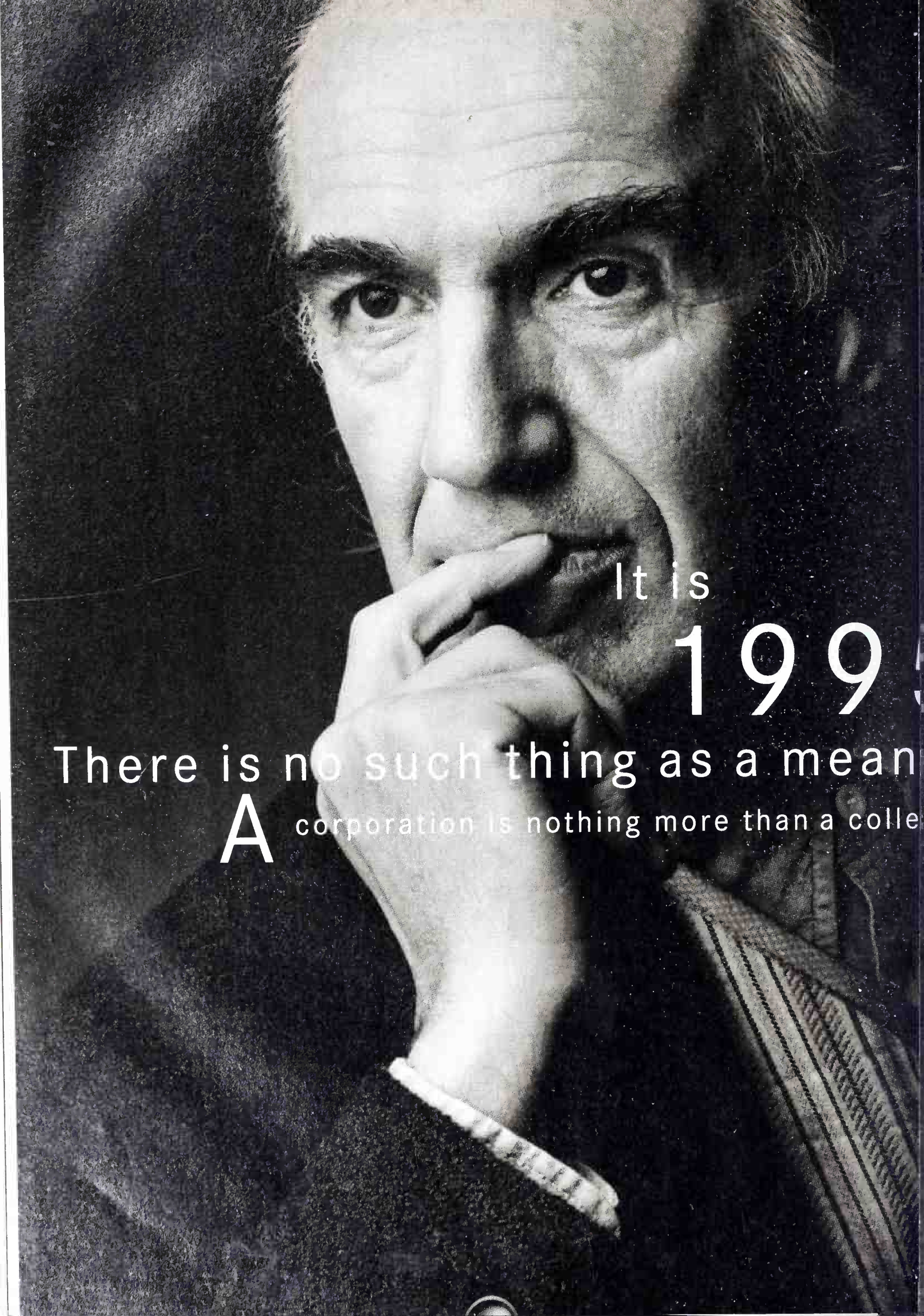
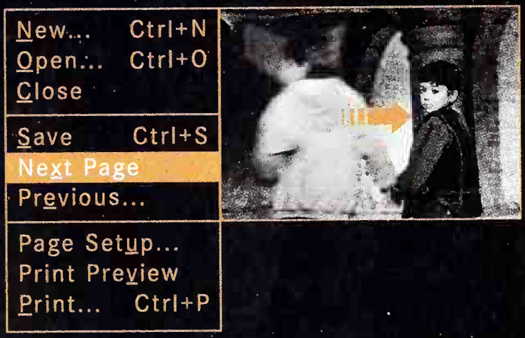


It is

199

There is no such thing as a mean

A corporation is nothing more than a colle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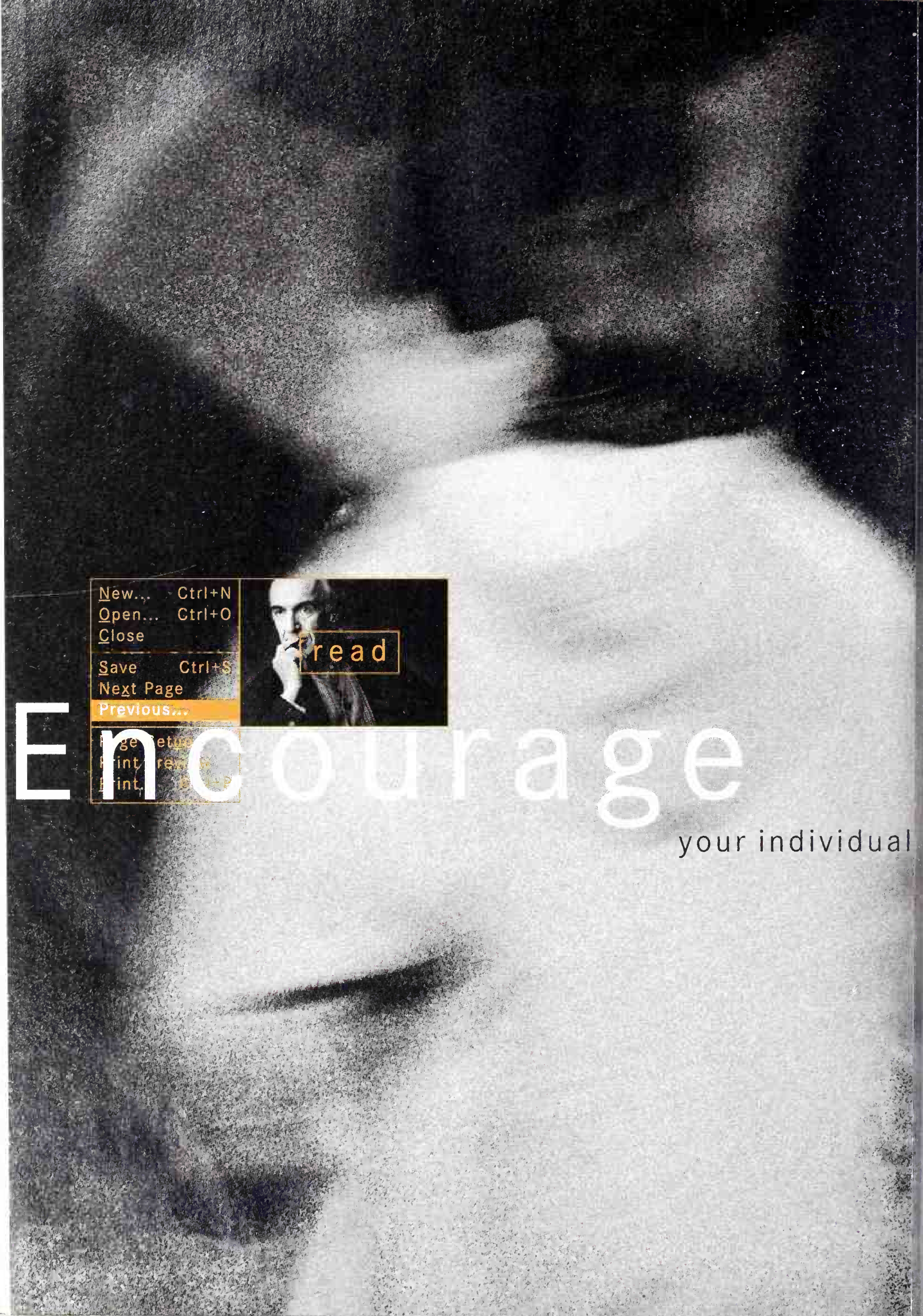
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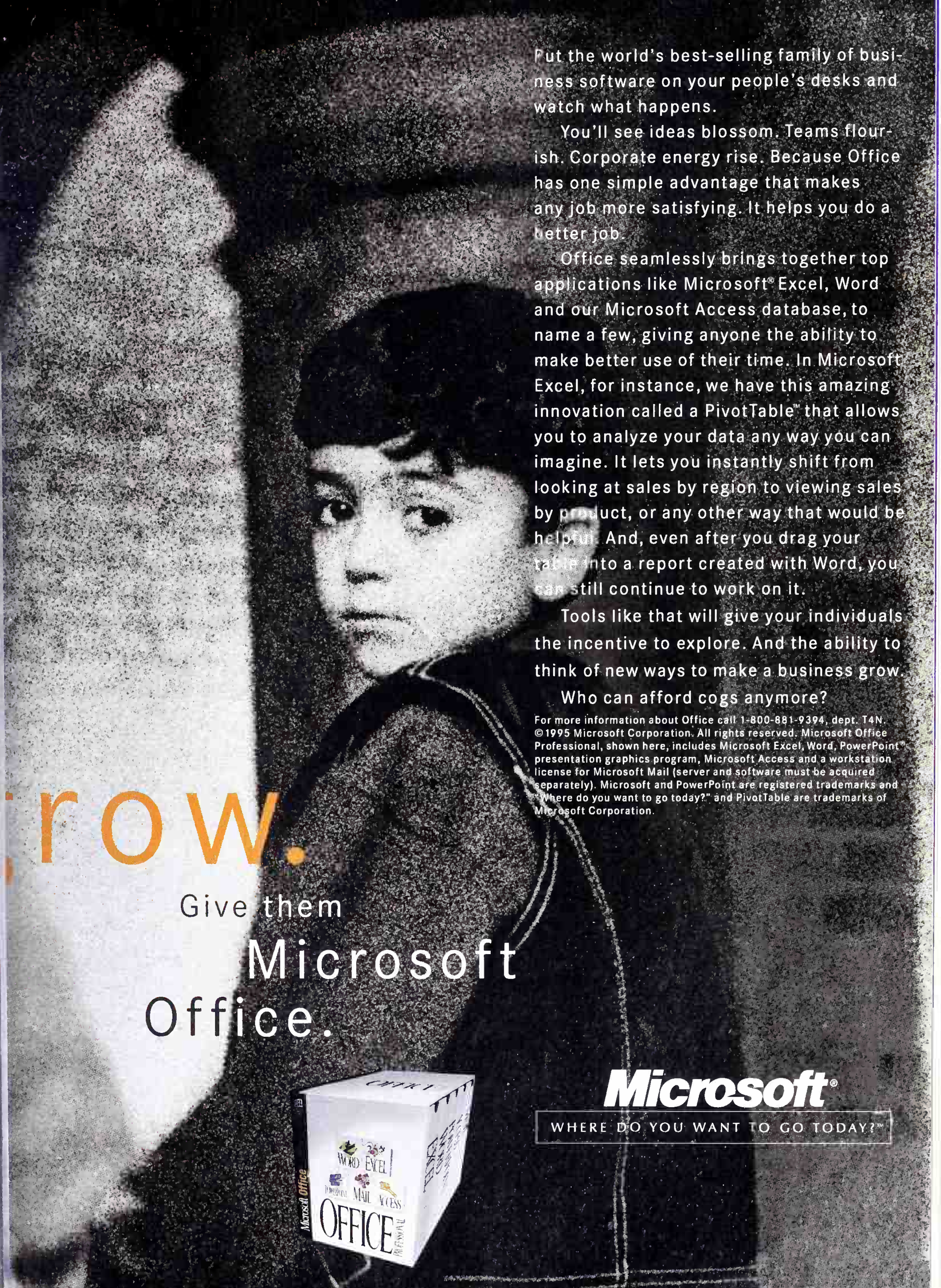

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Readers Report

A PLAIN-FOLKS WINE MERCHANT

Hats off to Geerlings & Wade, one of your "Hot growth companies" (Cover Story, May 22). They provide a useful service helping ordinary folks into the world of wine.

Wine stores often suffer from an atmosphere of elite, special knowledge. Geerlings & Wade gives customers a description of the wines it offers, often including taste-test results. While its service is great for the wine enthusiast, it is invaluable for the novice who needs help making informed selections. It's good to see such a company succeed. We need more of them.

Jesse J. Jiménez
San Diego

RUSH MADE ME READ IT

As owner of a talk radio station that has carried Rush Limbaugh since September, 1988, I thank you for such a great job of writing about our industry ("Everybody's talkin' at us," Media, May 22).

I don't normally read BUSINESS WEEK, but having heard Rush mention the article, I sought it out. Just like I bought Breathe Right for my wife after hearing Rush talk about it.

Radio is a powerful medium, and it always has been. Talk is just awakening the power it always had but which tended to be lost in the sound-alike music formats that have ruled the airwaves in the past.

Robert L. Vinikoor
General Manager
WNTK, AM & FM
New London, N. H.

HOW THOSE CAR TARIFFS COULD BACKFIRE

I think that the "worst-case scenario" you describe in "Your move, Japan," (News: Analysis & Commentary, May 22) is much too tame. After trade sanctions go into effect, Tokyo could retaliate by cutting its purchases of U. S. Treasury bills and bonds. With the resulting lower demand, bills and bonds would drop in price, driving up yields. The last thing that America needs—with its high rate of government borrowing, slowing economy, and overextended stock market and bond market—is rising interest rates.

I believe we should go to the World Trade Organization without imposing the sanctions. We don't risk losing any U. S. jobs in the meantime.

Moreover, it is ridiculous to require another country to buy our products. Washington needs to remember that competition is our policy. If Americans don't want Japanese goods sold here, we need to produce products that will provide better value and thus will persuade American customers to choose them.

Rick Zbavel
Fallbrook, Calif.

Your lead article and the editorial "Don't back down on Japan now" said much about the Japanese auto market, which is supposedly closed. From my view, cars should not be on the agenda.

When I moved to Tokyo more than two years ago, I was disgusted with the pitiful effort of American auto makers in Japan, especially after hearing all the U. S. complaints about barriers. Not only were they trying to sell vehicles too large for Japan's narrow streets but also left-hand-drive cars in a country where they drive on the left.

American companies are slowly improving their strategy and quality. But in businesses such as auto parts, they need to remember it is necessary to "get in bed" with Japanese companies if they want to be preferred suppliers. European carmakers, who have had more success in Japan, would laugh at American efforts.

Mark Foy
University of Tokyo
Research Center for Advanced
Science & Technology
Tokyo

On trade issues, BUSINESS WEEK

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Readers Report

CORRECTIONS & CLARIFICATION

In the tables that accompanied '
growth companies" (Cover Story, May
the phone number for Lund Internati
Holdings Inc. should have been 612
4200; the phone number for Portec
should have been 708 735-2800; and
phone number for Trend-Lines Inc. sh
have been 617 853-0900.

"Guardian of the famous and the d
(People, May 8) incorrectly stated
trademarks expire after a certain time
long as they are in continuous use, the
main valid.

seems to be too fixated on the nee
the U.S. to "beat" Japan. Your m
zine downplays the disaster that
surely come from any major disru
in world trade.

A Lexus sold in the U.S. brings
efits not just to Toyota Motor Co
Japan but also to the American de
the American parts makers who
ply components for the cars, an
course, the American buyer who
posedly chose the car because o
quality.

Is anyone ready to argue that A
can carmakers try as hard in Jap
Toyota and the others do in Am
From an international perspecti
seems that America is trying to g
force what it could not get by ord
effort. You are good winners (micr
cessors, PCs, and software) but very
losers (automobiles).

John De

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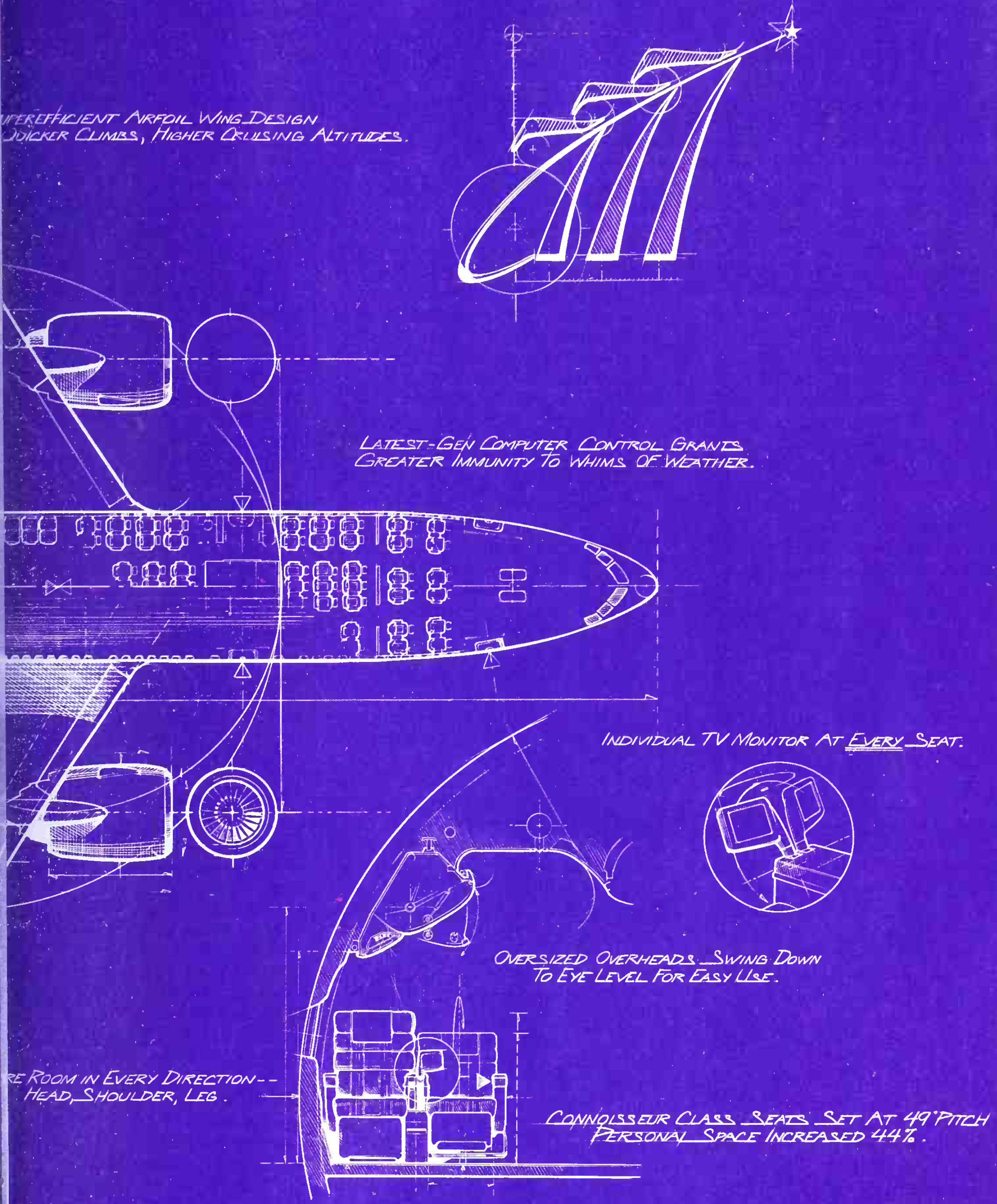

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NIGHTMOVER
By David Wise
HarperCollins • 356pp • $25

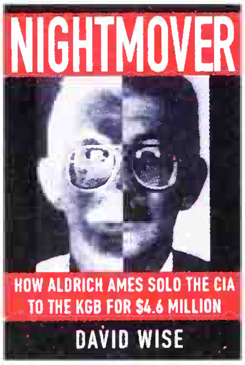
BETRAYAL
By Tim Weiner, David Johnston, and Neil A. Lewis
Random House • 308pp • $25

SELLOUT
By James Adams
Viking • 322pp • $23.95

DUMB SPY, DUMBER SPYCATCHERS

The saga of CIA turncoat Aldrich H. Ames would be hilarious were it not for its deadly consequences. Ames all but wore a Russian fur hat to the office. He was a problem drinker who, among other glaring lapses, failed to report on meetings with KGB agents he was supposedly trying to recruit and abruptly started buying Jaguar autos and a half-million-dollar house, for which he paid cash. Yet his CIA bosses shrugged off the warning signals for years, giving him jobs that provided access to their most precious secrets: the files on Soviet agents.

Consequently, Ames became perhaps the most destructive spy of the cold war. The information he gave the Soviets led to the virtual annihilation of the agency's Soviet network. At least 10 CIA agents were executed. Others wound up in prison camps or had to flee to the West. Ames also compromised dozens of other operations, including vital communications intercepts.



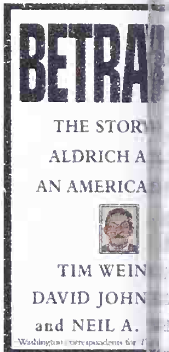
But what the Ames affair revealed about the agency is even more disturbing. If the CIA was ever a well-honed instrument of U.S. foreign policy, it isn't anymore. Rather, it seems to be a boozy old-boys' club overly concerned with protecting perks and deflecting scrutiny. It is, as David Wise writes in *Nightmover: How Aldrich Ames Sold the CIA to the KGB for $4.6 Million*, "a tired bureaucracy, living in the past, wearing blinders, and deeply flawed."

This book is one of three that tell the same incredible story of a marginal CIA man who became perhaps the greatest spy of all. *Nightmover*, whose author has written several previous books on intelligence, is probably the most thorough treatment. *Betrayal: The Story of Aldrich Ames, an American Spy* is a fast-paced, vivid account of the debacle by three *New York Times* Washington correspondents, Tim Weiner, David Johnston, and Neil A. Lewis. And *Sellout: Aldrich Ames and the Corruption of the CIA* by James Adams, the Washington bureau chief of *The London Sunday Times*, is notable for its rich biographical material on Ames and his father, Carleton, a hard-drinking Asia hand who had a forgettable CIA career. Adams also presents the most detailed recommendations on reforming the CIA.

But all of these books are far more concerned with describing the agency's flaws, as revealed in an appalling case, than with fixing them.

The CIA's first mistake came in the 1960s, when, largely as a result of the elder Ames's connections, it hired the unpromising Rick Ames. Later, an evaluator declared that the fledgling case officer did not have the moxie to recruit agents in the field and recommended that Ames be kept at headquarters. From early on, there were signs of trouble. Ames got blind drunk at parties, cheated on his wife, a fellow agent, and was careless enough to leave a briefcase full of secret documents on the New York subway. None of this prevented Ames from receiving a cushy posting in Mexico in 1981. There, the CIA allowed him to try to recruit a risky and unlikely target, a crack KGB counterintelligence officer named Igor I. Shurygin. Over the next two years, the two men engaged in a series of marathon drinking bouts at Mexico City restaurants with their employers' consent. In the end, it was Shurygin who softened up Ames for recruitment.

Wise figures the KGB man played on Ames's sense that "his talents had not been adequately recognized by agency." But Ames's main motiva was money. While in Mexico, he bi agency rules by becoming romantic involved with an agency source, a lombian cultural attaché named M del Rosario Casas Dupuy, whom eventually married. Back in Washing in 1985, he became desperate for ca the result of a costly divorce set ment with his first wife and Rosario's expensive habits. So he walked into the Soviet Embassy, handed over secret documents, and asked for $50,000. In time, Rosario Ames, who ultimately drew a jail sentence of five years, became aware of his spying and took a keen interest in its rewards.



Once he took money, Ames later the Senate Intelligence Committe had crossed a line. I could never back." And he didn't. His next was to eliminate the CIA's Soviet ag who could have fingered him. He st a huge batch of documents into s ping bags and carried them out of agency's Langley (Va.) headquart He knew no one would stop him. T proved to be the biggest haul for KGB ever. Included were the identiti virtually all Soviet agents workin the CIA and the FBI. Ames handed over to a KGB contact in a George restaurant.

During the next few years, Am who had become counterintellig chief of the agency's Soviet division- livered as many as a thousand d ments a year, more than the KGB process. In return, he received ments totaling nearly $3 million, us in fat wads of cash. Nor did the lapse of the Soviet Union in 1991 turb the relationship. Ames's pay ac ly increased under the KGB's Rus successor, the SVR.

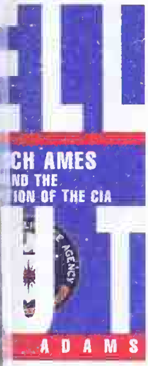
Despite having lost so much, the did not scramble to find the sour the leaks. It took a full year agents began vanishing to assembl investigatory task force. The ag didn't start seriously examining Ar bank accounts until 1992, three y

ALDRICH AMES DID PERFORM ONE SERVICE: EXPOSING THE CATASTROPHIC STATE OF THE CI r an alarmed colleague, who knew es was one of the few officers with ss to the blown Soviet agents, ed off the agency that Ames was nding way beyond his means.

nce the agency and then the FBI ed in on Ames, nailing him wasn't hard. He never saw much need to areful—he kept his correspondence the Soviets on his home computer. search of Ames's house after his ar- in February, 1994, the FBI found a er from the KGB containing a photo and where, they said, Ames could d his retirement dacha.

mes was under some suspicion from late 1980s but was allowed to go on ng until early 1994. Why the laxity? hree books blame the lapses on the protective CIA culture, particularly of the Directorate of Operations, secret branch where Ames spent of his career. Heavy drinking and ing of regulations were apparently non among DO officers, who routine- overed up misdeeds by colleagues. use of bureaucratic rivalries, it 't until 1991 that the CIA brought e FBI, which has responsibility for ing down spies in the U. S.

the end, no one in Langley paid of a price for the Ames debacle. en CIA officers, all but one of them ed, received "severe" letters of rep- nd. But the affair was a body blow e agency at a time when its *raison* was already in question because of the end of the cold war. In court to receive a life prison sentence, Ames dealt the agency another bruise, calling it "a self-serving sham, carried out by careerist bureaucrats who have managed to deceive...American policymakers and the public."



is hard to disagree with his com- after reading these books. But still infuriating that, as Weiner's reports, Ames was "thrilled and ated" by the fact that his critique een taken very seriously by policy- rs and the press. Only a hard could puncture his smug satis- , like the one dealt to him in one *Times* reporters' phone inter- . Ames was asked: Shouldn't he quit the agency 10 years earlier— his bitterness turned to betrayal? ponse, the master spy began cry- d hung up the phone.

BY STANLEY REED

d is BUSINESS WEEK*'s Internation- airs Editor.*

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BY STEPHEN H. WILDSTROM

GIVING PCs THE POWER TO READ

I've spent much of the past 30 years sitting at keyboards of one sort or another, but I've never managed to become more than a wretched four-fingers-and-two-thumbs typist. Needless to say, I'm interested in finding another way to get stuff into my computer.

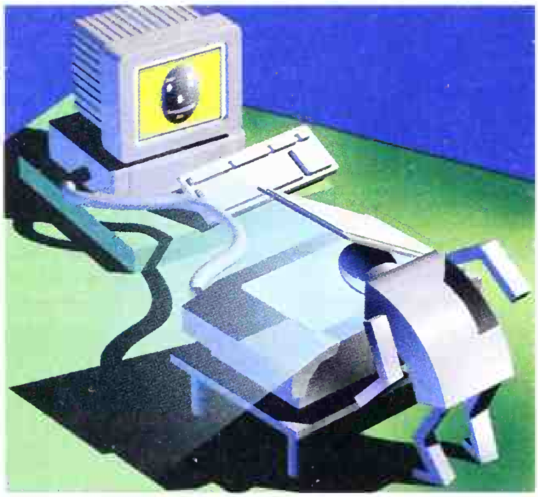

ILLUSTRATION BY JAME [illegible]

By far the most advanced alternative is scanning devices, and I'm finding more and more tasks for them. While voice- and handwriting-recognition still face fundamental challenges before becoming truly useful, the optical character recognition (OCR) technology that turns a scanned image into text is now a solved problem. The trick in making it work on the desktop has been having enough computing power to throw at the task. Fortunately, today's personal computers are up to a job that until recently could be handled accurately and quickly only by high-powered workstations.

CHEAP HARDWARE. OCR, which produces text that can be searched, edited, and copied into other documents, is a tough challenge in artificial intelligence. In effect, it requires teaching a computer to read. Accuracy increases when the software can recognize whole words and is able to determine which letter combinations rarely or never occur in English (or whatever language the software has been specialized for). Pentium PCs or Power Macs with 16 megabytes of memory have enough horsepower to make this sort of heavy lifting practical.

Getting started in scanning is easy these days because good hardware has gotten cheap. Handheld scanners, available for as little as $100, are generally not suitable for OCR. But a new generation of sheet-fed scanners is bringing inexpensive and compact power to the desktop. Virtually any scanner you buy will come bundled with a competent OCR program, usually Caere Corp.'s WordScan or Xerox Corp.'s WordBridge. Of course, any scanner can read in black-and-white drawings. (I did not look at more complex and expensive color scanners.) And in conjunction with software, a fax modem, and a printer, a scanner can turn your personal computer into a fax machine and copier.

Possibilities include the $350 PaperPort from Visioneer (800 787-7007), the $450 PageOffice from Umax Technologies (510 651-8883), and the $299 WinFax Scanner from Delrina (800 268-6082). If you want the best, fastest scanning, it's hard to top a flatbed unit such as the $549 Hewlett-Packard IIp.

ROLODEXING. Corex Technologies Corp. (617 277-5344), a Boston startup, has taken an interesting approach to OCR that demonstrates the technology's maturity. Automatically transferring information from business cards to a computerized contact list is a big help to anyone who collects scads of cards. But few character-recognition challenges are harder. Not only must the software read the often highly stylized typefaces of business cards, it must also figure out what each bit of information is so that it can be transferred to the correct field in your database of contacts.

Corex CardScan software, which lists for $99 by itself or $299 in a bundle with a specialized card reader, does a surprisingly good job—enough so that I found it significantly easier, even after making manual corrections, than typing in the cards by hand. It does the critical job of recognizing numbers with almost perfect accuracy, and most of the time separates voice and fax numbers correctly. Only E-mail addresses consistently caused this program to stumble. CardScan can work with about two dozen personal-information and contact-management programs.

The fumble-fingered won't be truly comfortable until our computers understand what we want when we speak into their microphones and scribble on their screens. But scanning and optical character recognition technology are work savers that have a place on every desktop.

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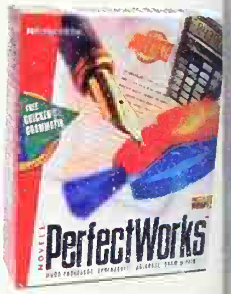

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clude better spelling and
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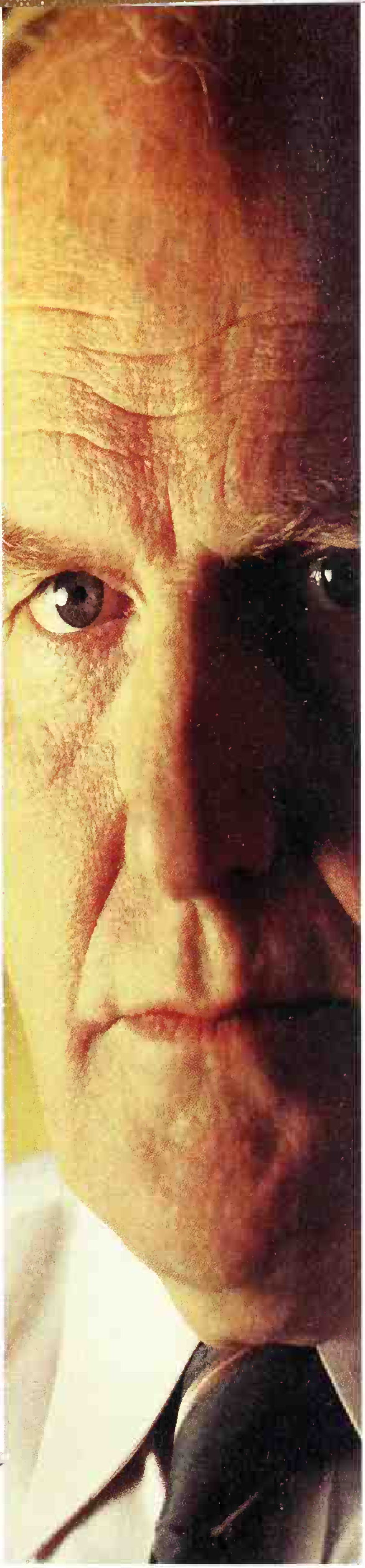

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Economic Viewpoint

BY ROBERT KUTTNER

YOU COULD DRIVE A LEXUS THROUGH THE HOLES IN THE WTO

RICHARD SCHULTZ

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*

HINDRANCE: The World Trade Organization is too weak to open markets yet strong enough to sink serious efforts to solve trade inequities

The two proudest trophies of recent U.S. trade negotiation—the North American Free Trade Agreement and the multilateral Uruguay Round—have already lost much of their luster. NAFTA was supposed to stimulate the emerging market most strategically important to the U.S. Instead, Mexico has become an awkward financial ward, destabilized by the hot portfolio capital that NAFTA itself attracted.

What's more, the new World Trade Organization, prize of the Uruguay Round and successor to the General Agreement on Tariffs & Trade, is alarmingly half-baked. On one hand, the WTO is too weak to be a true international court that might serve the U.S. by opening foreign markets. Yet it is just strong enough to undermine bilateral efforts and embarrass the U.S. if Washington rejects its rulings.

Despite the multilateral trade system, most real progress in opening markets has come from tough bilateral negotiation. The GATT system was useful for lowering official tariffs and establishing trade norms—but not much more.

Historically, national negotiating muscle has counted. The Economic Strategy Institute's recent document, *Section 301: A Catalyst for Free Trade*, describes 98 major cases where U.S. threats of sanctions—not recourse to GATT—made the difference. Section 301 of the Trade Act requires the executive branch to initiate complaints against foreign barriers and to retaliate if such barriers are not removed. If U.S. semiconductor manufacturers, satellite makers, orange growers, and retailers such as Toys 'R' Us Inc. have gained a foothold in Japan, the credit belongs to Section 301 and the resolve of the U.S. Trade Representative. In the same fashion, pharmaceutical and software exporters have won intellectual-property protection in Brazil, and U.S. movie and compact-disk distributors have gained access to Asia.

UNILATERALISM? But Section 301 is in bad odor internationally, perceived as "unilateralism." Many nations supported the WTO precisely in the hope it would kill Section 301. In the legislation implementing the WTO agreement, however, Congress specifically directed the Administration to continue using Section 301 on issues not adequately covered by the WTO.

The U.S.-Japan auto dispute is a case in point. The trade imbalance in cars and parts accounts for about half the U.S. trade de
with Japan. But the trade obstacles re
from ostensibly private actions—the clu
ness of the dealership system, the impos
of excessive inspection charges and mark
and a pricing system for auto parts
systematically excludes foreigners. Non
these is a state action, and thus none exp
ly falls under the WTO.

By moving unilaterally, the Administra
has been criticized for undermining the
Worse, if Washington and Tokyo file rival
complaints, the WTO could well find
Japan's byzantine private system for dis
raging imports did not violate "free trad
but that Washington's retaliatory tariffs

In the end, the WTO has neither the aut
ity nor the due process of a true legal b
It has no independent power to levy or c
penalties. WTO panels are ad hoc affairs,
ducted in secret, and are not subject to
of evidence.

TRANSATLANTIC TIES. It may be the U.S
plied the right principles in the wrong
tings. Free-trade areas are a sound id
but Mexico was a poor candidate. A g
trade body, committed to genuinely open
merce and with adequate judicial authori
also a fine idea, if a radical departure.
WTO is no such organization, and the U.
not yet ready to surrender its soverei
to a true world trade court.

If the WTO is not a true world trade or
ization, how about a more suitable reg
one? The Clinton Administration want
expand free-trade areas to Asia and S
America. Clyde V. Prestowitz Jr., preside
the Economic Strategy Institute, argues
the U.S. should create a liberal trade ar
the one region where it might work—
North Atlantic. The U.S. and the Euro
Union are sufficiently close in their norms
ing standards, and commercial practice
be symmetrical trade partners. European
ion trade officials are in a testy mood
now, concerned that Washington and T
will resolve their auto dispute with a bil
al deal that would leave Europe at a d
vantage. The concern is legitimate and
the more reason to seek closer ties with
rope. A North Atlantic Free Trade Ag
ment—a different NAFTA—is already the
ject of quiet diplomacy. It might be
workable than either the present NAFT
the WTO.

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at if you're 45? If your child is close to college age, ıy be time to shift the bulk of her college money fixed-rate investments to protect against short-term uations in the equities market. If you had your child · you were 40, one possibility might be to withdraw rtion of your IRA when you reach 59 1/2. You may want to borrow against the equity you've built up in home through a home equity line of credit. The est you pay on loans up to $100,000 may be com-ly tax deductible. The options are many and varied, ı plan becomes extremely important.

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Economic Trends

BY GENE KORETZ

EQUITIES ARE DISAPPEARING

Blame mergers and buybacks

Despite high stock prices, the volume of corporate equities retired via corporate purchases outpaced new issues last year for the first time since 1989, and the trend seems to be continuing. Indeed, as economist Gary E. Schlossberg of Wells Fargo Bank points out, corporate equities are selling at around a 40% premium over the replacement costs of underlying assets—"a level that usually encourages new issue activity and discourages the elimination of supply."

One reason for the reemergence of equity liquidation, says Schlossberg, is a new wave of acquisitions undertaken by cash-rich U. S. companies seeking to expand global market share or reduce costs through economies of scale. At the same time, the low dollar has made U. S. acquisitions cheap for foreign buyers despite high stock prices.

Second, Schlossberg notes that stock buybacks are now being driven by the large gap between taxes on ordinary income and those on capital gains. Companies are choosing to divert spare cash from dividends, which are taxed as ordinary income, to buybacks that boost stock prices and generate lower-taxed capital gains for their shareholders.

This trend helps explain why the dividend payout rate for Standard & Poor's 500 companies is close to a historic low. "If Congress cuts the capital-gains tax," predicts Schlossberg, "dividend yields are likely to remain relatively meager."

YO, TAXI. TAXI! TAXI!!

Why New York cabs can be scarce

If you've ever been in Manhattan on business on a rainy afternoon, you know how hard it is to find a taxi. According to a new study by Linda Babcock and Colin Camerer of the California Institute of Technology, Richard H. Thaler of the Massachusetts Institute of Technology, and George Lowenstein of Carnegie Mellon University, the reason isn't simply that more people try to get cabs when the weather is bad.

Most New York cab drivers rent their cabs for a 12-hour period for a flat rate, keep all their fares, and knock off work during those 12 hours whenever they want. Since they make a lot more money per hour when demand is strong, you might think they would work longer on busy days. Not so, report the four economists, who analyzed nearly 3,000 daily trip sheets of over 1,000 New York taxi drivers from 1988 to 1994.

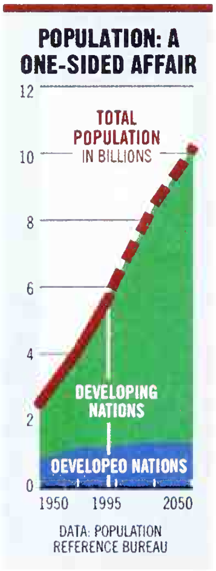
The study found that the drivers actually tended to quit earlier on busy days and work longer on slow days. The results suggest that drivers set a target for their daily incomes and quit when they reach it—though they could actually earn more and drive less by working the same number of hours every day.

THE GOOD NEWS ABOUT FERTILITY

Rates dip in developing nations

In recent decades, fears of an imminent unrestrained population explosion have waned, as family planning programs have helped reduce the average number of children born to women in developing countries from 6 in the late 1960s to 3.5. In fact, in the world's most populous country, China, the fertility rate is currently below the population replacement level of 2.1 children per woman, and demographers are hoping fast income growth will keep it low—as it has in such nations as Hong Kong, Korea, Singapore, and Taiwan and in all the leading industrial countries.

Meanwhile, concern is focused on the larger number of developing nations where fertility rates remain far too high. Current trends indicate that the world's population will still grow mightily in coming decades—from 5.7 billion today to over 8.3 billion in 2025, according to the Population Reference Bureau. And virtually all of that growth will occur in developing nations—increasing their share of the world's population to 85% by 2025.


POPULATION: A ONE-SIDED AFFAIR

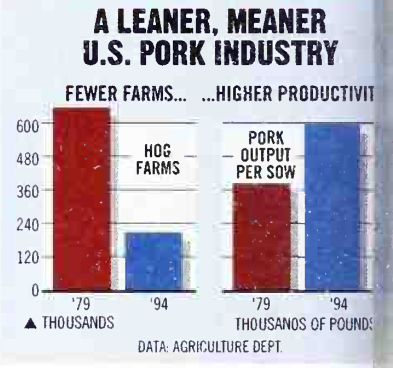
DATA: POPULATION REFERENCE BUREAU

HIGHER ON THE HOG

U.S. pig farms turn state-of-the-

The productivity gains that h made agriculture a highly effic sector of the U. S. economy are sur ing in an area once thought to be re tant to change—hog production. In process, they are boosting profits large, well-capitalized operators, dri thousands of smaller farmers out of hog-raising business and helping to k a lid on food inflation.

Competitive pressures are for these changes. While per capita U consumption of poultry has nearly bled since 1980, per capita consum of pork has marked time—a victi the falling relative cost of poultry ar consumer aversion to fat-laden mea


A LEANER, MEANER U.S. PORK INDUSTRY

DATA: AGRICULTURE DEPT.

To stay competitive, notes econo Gary Benjamin of the Federal Res Bank of Chicago, hog raisers have lowed the lead of the poultry indu moving from small operations to l specialized hog-production comple Since 1979, the number of U. S. farms has plunged nearly 70% (ch and today just 6% of hog farms acc for 55% of the nation's hog populat

Most of these operations, which involve as many as 10,000 or 15,00 imals, make use of genetic bree scientifically formulated feed mixing tomated feeding machines, climate trolled pens, and in-house veteri care. The result has been a 50% crease in pork productivity per since the mid-1960s—and leaner, hig quality, less costly meat for consu Last year, the real retail price of was nearly 20% less than in 1970.

Over the long run, the indust looking overseas. While pork exp are relatively small, they have sta to accelerate—particularly to Ja which took 45% of exports last yea

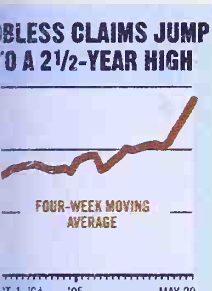
ERIC HOFFMANN/BW

JAMES C. COOPER & KATHLEEN MADIGAN

ID THE FED OVERTIGHTEN? OT IF YOU LOOK WITH BOTH EYES

U.S. ECONOMY As the economy's landing gets bumpier, a key question is re-
ing a lot more attention: Has the Federal Reserve
rtightened?
ost economists still say no. A few, though, are far
e pessimistic, especially the monetarists—those
depend heavily on various measures of bank re-
ves and the money supply for guidance on future
nomic growth and inflation.

The monetarists make a compelling case, especially with the economy slowing so sharply. First-quarter growth in real gross domestic product was revised down to 2.7% from 2.8%, following the fourth quarter's 5.1% gallop. Monthly data suggest that second-quarter GDP growth will be even less, as businesses pare excessive inventories.
n May, new jobless claims shot up (chart) and con-
er confidence fell. Construction contracts plunged
in April, to a 2½-year low. The Federal Reserve
k of Philadelphia and purchasing managers in Chi-
both reported slower business activity in their
ons in May. And the government's index of leading
cators is falling, pointing to continued weakness
n the road.


BLESS CLAIMS JUMP
'O A 2½-YEAR HIGH

OUSANOS
DATA: LABOR DEPT., BUSINESS WEEK

HE MONETARISTS' VIEW, all this malaise is the
lt of a too-tight monetary policy—and a precursor
e next recession. In today's weak economy, they
short-term interest rates would be falling if the
were not busy draining bank reserves in an effort
aintain its targeted federal funds rate at the cur-
6% level. Reserves are the raw material that
s use to generate money and credit.
e monetarists point to the unprecedented decline in
reserves in the past year as evidence of the Fed's
e hold on the economy (chart). As a result, sever-
easures of money growth look exceptionally weak—
cially the narrow gauges, which include only cur-
y and deposits used for check-writing.
be sure, Fed policy is restrictive. For example,
inflation-adjusted federal funds rate, currently at
nd 3%, is well above its historical average of about
Also, the yield curve has flattened considerably in
nt months as declining long-term rates have nar-
d the spread between long and short rates.

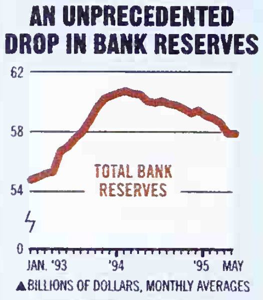
However, these two interest-rate indicators show why there is a vast difference between clamping down to slow the economy and overtightening to squeeze the living daylights out of it. First, the real fed-funds rate remains below the 5%-plus level it hit prior to the 1990-91 recession. The levels touched before the recessions of the '70s and '80s were even higher.

Second, the yield curve, while it is flatter than earlier this year, is by no means flat. For Treasury securities on May 31, three-month bills were yielding 5.81%, 5- and 10-year notes paid 6.07% and 6.29%, respectively, and the 30-year bond yielded 6.66%. One precondition of all past recessions has been an inverted yield curve, in which short rates exceed long rates.

ALL THIS IS WHY Nobel laureate Paul A. Samuelson used to say, "God gave us two eyes so we can keep one on the money supply and the other on interest rates." Besides, money growth alone as a beacon on the economy casts a much dimmer light than it did a decade ago. Financial-market deregulation and globalization have destabilized a once fairly reliable relationship between money and economic activity.

As a result, a given amount of Fed restraint does not squeeze the economy as hard as it used to, especially when measured by reserves and the money supply. Thanks to increased U.S. borrowing from nonbank sources, domestically and from abroad, bank credit accounted for only about a third of private nonfinancial debt last year, down from about half in the mid-1980s.

Moreover, because dollars flow more efficiently through the economy, a given amount of money can support about 15% more output than it used to, based on the turnover rate of the broad M2 money supply, comprised of not only cash and checking accounts but also household money market funds and other short-term savings. So anemic money growth is not the same harbinger of a weak economy that it once was.


AN UNPRECEDENTED
DROP IN BANK RESERVES

▲BILLIONS OF DOLLARS, MONTHLY AVERAGES
DATA: FEDERAL RESERVE

Make no mistake: The Fed is bringing this economy down. But so far, the softness is narrow, concentrated in autos, housing, and home-related durable goods. The other 86% of the economy, fueled by capital spending and exports, continues to perk along nicely. The slowdown appears to be primarily an inventory adjust-

ERIC HOFFMANN/BW

ment, most notably by the auto industry. There is no evidence of the cumulative unwinding of activity that is the classic mark of a recession (chart).

That's the message from the Commerce Dept.'s revision to first-quarter GDP. Final demand grew faster than first estimated, rising at an annual rate of 2.5% instead of 1.8%. And inventories grew less than originally thought, especially at retailers. Stockpiles increased by $52.3 billion, rather than $63 billion.

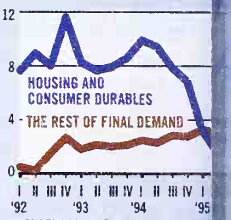
The new mix of GDP lessens the chances of a sharp inventory correction that could severely choke off growth this spring and summer. Still, inventories remain excessive, and many companies will have to work off their extra merchandise. That means further cutbacks in orders and output in coming months.

THE SLOWDOWN, however, is sowing the seeds of its own subsequent pickup. The credit markets, especially the bond market, did a lot of tightening for the Fed last year, and they are now doing a lot of easing. The yield on the benchmark 30-year Treasury bond has fallen from nearly 8% earlier this year to below 6.7%. As a result, 30-year fixed mortgage rates have dropped below 8% for the first time in more than a year, and housing activity is starting to stir again.

Sales of new single-family homes did fall 2.7% in April, to an annual rate of 580,000, but March sales were revised sharply higher. And by mid-May, mortgage applications to buy houses had jumped 44 from mid-January, while refinancing applications also showing some life. After a couple of months of ter sales whittle down builders' inventory of un homes, construction will be set to add to, rather t subtract from, economic growth in the second half.

Consumers are also likely to show more life. Although the Conference Board's index of consumer confidence dipped to 101.6 in May from 104.6 in April, a reading above 100 has typically been associated with a fairly peppy consumer sector. But job growth for this business cycle has probably peaked, and consumer debt levels are up sharply, so shoppers are not likely to regain their 1994 urge to splurge.

WHERE THE FED IS DRAWING BLOOD



▲PERCENT CHANGE FROM A YEAR AGO

DATA: COMMERCE DEPT., BUSINESS WE

In the meantime, this slowdown has a long way run, and it's likely to generate a new round of F bashing, as Washington and various business gro join the monetarists in bad-mouthing the central ba policies. The Presidential candidates will get their l in, too. But economists who look at the world w both eyes may feel more kindly toward the Fed. their tea leaves, the current slowdown is not a fore ner to recession but the pause that refreshes.

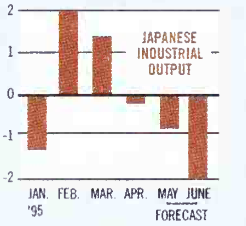
JAPAN

THE YEN IS CLOBBERING THE RECOVERY

Government officials are voicing greater concerns about Japan's recovery, and the reason is the yen. On May 25, Bank of Japan governor Yasuo Matsushita warned a banking group that "the recent additional rise of the yen might stall improvement in corporate profits and business sentiment."

Clearly, the yen-induced weakness in exports is slamming profits and output, causing record unemployment. The Ministry of International Trade & Industry said industrial output fell 0.2% in April. The decline was a surprise, and MITI's survey of manufacturers has projected that output will fall an additional 0.8% in May and 2% in June (chart).

MANUFACTURING IS SET TO CUT OUTPUT



▲MONTHLY PERCENT CHANGE

DATA: MITI, BLOOMBERG FINANCIAL MARKETS

Consumers are also struggling this quarter. Sales at department stores and supermarkets in April were down 1.7% from a year ago, after total household spending fell 0.6% in the year ended in March, the sixth drop in a row. Employment worries are fueling the cutbacks. The jobless rate hit a record 3.2% in April, with only 65 job offers for each 100 applicants.

Household budgets are getting some relief, however, from Japan's spreading deflation. Consumer prices in Tokyo dipped slightly in May, compared with a year ago. That was the third straight decline. Moreover, prices excluding food fell 0.1%, the first drop on record. Price data in Tokyo typically lead trends in the rest of the country In April, prices nationwide fell 0.2% from a year ago.

Falling factory activity and so consumer demand hint that Japan's economy is declining this quarter. Other worries suggest a sluggish second half: The bankin system remains shaky, and fiscal stimulus will be only modest.

In May, the Organization for Economic Cooperation & Develo ment cut its forecast for 1995 growth in Japan to 1.3%, from 2.5% projected in December. The economy expanded just 0.9% in 1994. For now, the Finance Minis try is sticking to its forecast of growth of 2.8% in the year endin next March. But with the yen ris ing and public remarks growing more anxious, Tokyo may have t scale back its rosy outlook soon.

ERIC HOFFMANN/BW

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Lincoln, IL.

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A Lincoln

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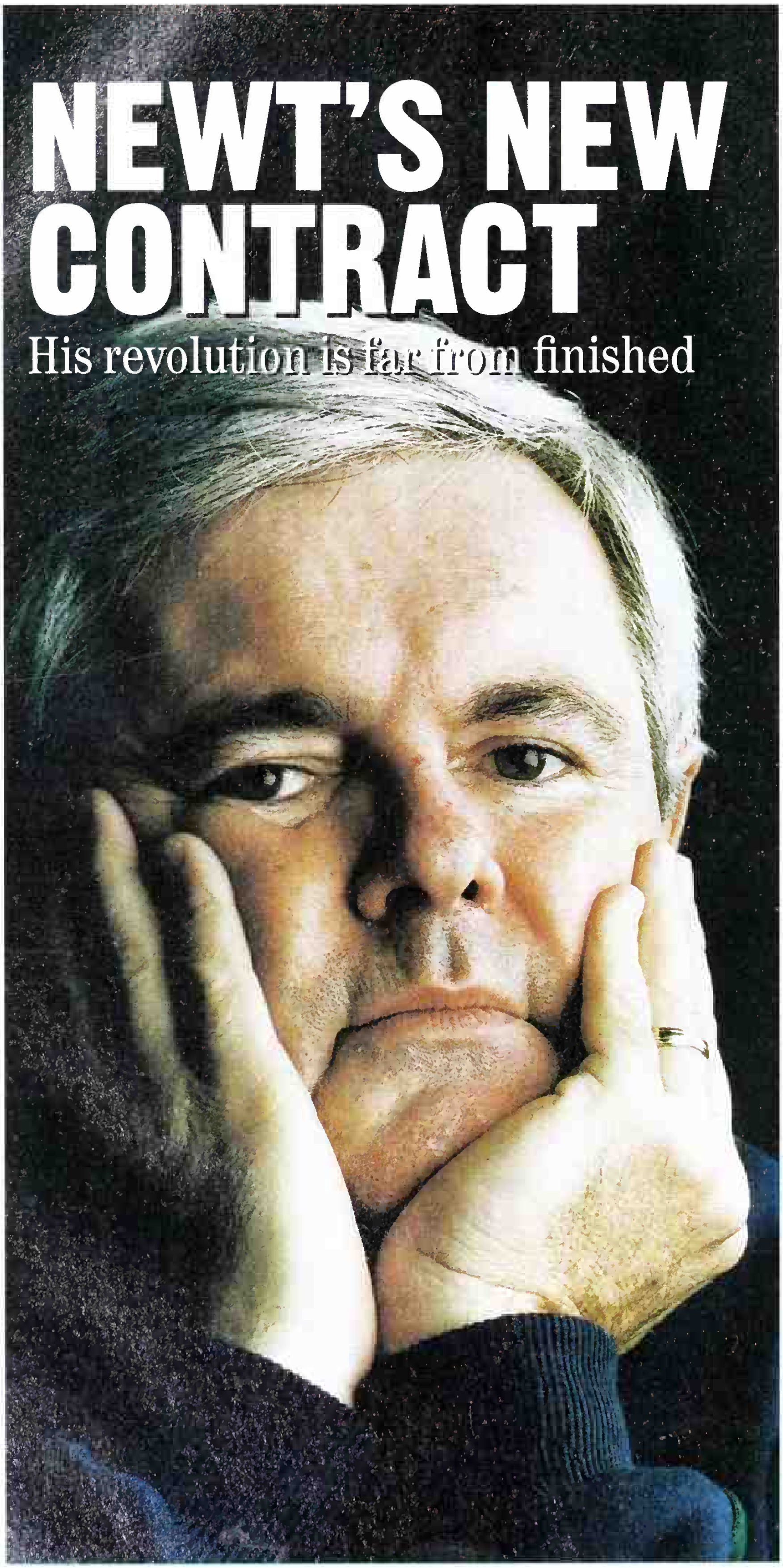
NEWT'S NEW CONTRACT

His revolution is far from finished



KEN LAMBERT/WASHINGTON TIMES/GAMMA-LIAISON

It was a frosty February day,
the rhetoric in House Speaker
Gingrich's office was white-hot.
get Committee Chairman Joh
Kasich (R-Ohio) told House Repub
leaders that he could not simultan
ly erase the deficit and slash taxes
in seven years. Gingrich stood firn
sisting that Republicans neede
deliver on the promises in their
tract With America. Kasich griml
off to do the Speaker's bidding. T
months later, Kasich authored a
anced-budget blueprint that sla
spending by $1.4 trillion—and cuts
es by $353 billion.

If nothing else, Gingrich this
has demonstrated that the convent
wisdom is wrong: It is possible t
shape the public-policy debate in W
ington. Under his iron rule, Hous
publicans approved 9 of the 10 Con
items (term limits flopped) and then opened their second 100 days with a thunderous assault on the very notion of centralized government. Neither the White House nor Congress' minority leadership has been able to counter the GOP juggernaut. "He's setting the agenda," says Democratic consultant Mark McKinnon. "The reality is, there is a huge Republican wave crashing over Democrats, and we are just running around looking for snorkels."

Gingrich shows no sign of letting up.
Indeed, he is determined to dom
Washington through the 1996 elect
and beyond. In the coming six mo
Gingrich says he will turn to socia
budgetary issues that he deferr
focus on the Contract. His goals: to
ish the current welfare and Mec
systems as part of a wide-ranging
to shift power from Washington t
states.

What's more, he hopes to fram
issues for the coming Presidential
tion. Next up: a four-day foray into
Hampshire, beginning June 9. Ev
Gingrich, 51, doesn't run himsel
won't rule it out—all nine GOP
dential wannabes already feel com
to respond to the agenda he's se

NINE TALKIN POINTS

"Renewing
American
civilizatior

1.

STRENGTHEN THE AMERICA WORK ETHIC

Require welfa
recipients and
prisoners to w
force the
unemployed ir
training progr
as a condition
benefits

rich is determined that "the next ident will be Gingrichian in world-" says adviser Grover G. Norquist, dent of Americans for Tax Reform. long as Newt Gingrich is the 800-d gorilla who might roll out of bed norning and run for President, Bob Dole will give us our tax cut and spending restraint."

To force Democrats as well as Republicans to tackle his issues during the campaign, Gingrich is designing a Contract for 1996, advisers say. Major elements include a constitutional amendment requiring a three-fifths vote before Congress could raise taxes, another amendment permitting prayer at some school events, and limits on lawsuit damages.

•

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ity

key is leading the culture, not ng the government," Gingrich told NESS WEEK, "because if you change lirection of the entire dialogue, thing else falls in place behind it" 34).

spite a polarizing style, the Speakas seized the la-setting role ionally played ie President. on no issue is ifluence more ounced than t reduction. years after ge Bush broke read-my-lips e and raised , Congress is engaged in a debate lelights conservative Republicans: ier to balance the federal budget ishing spending by $1.4 trillion, as louse proposes, or by a mere $1 n, as the Senate prefers.

3.

ACCELERATE AMERICA'S ENTRY INTO THE INFORMATION AGE

Deregulate telecommunications, shrink the FCC

ere is virtually no argument in ess over the merit of a balanced t—only over the optimal time in to achieve it and the size of the sed tax cut. With the help of Sen-llies Phil Gramm (R-Tex.) and Lott (R-Miss.), Gingrich has con-d Senate Majority Leader Bob R-Kan.) to embrace at least token lief.

grich has controlled the House a by handpicking committee chairs oling out plum assignments as re-for loyalty and aggressive action. esult is a contest among Republicans to come up with ever bolder proposals to eliminate agencies and even Cabinet departments, to hand over federal programs to states while privatizing others, and to deregulate industries such as telecommunications and pharmaceuticals. "A couple of years ago, you were considered outlandish if you talked about eliminating the Commerce Dept.," says Claremont McKenna College political scientist John J. Pitney Jr. "It's mainstream now."

4.

REPLACE THE WELFARE STATE

End federal programs such as welfare and public housing, let states and charities try new ideas

The meat-ax approach to downsizing government now being practiced comes right out of the postmodern political philosophy of a history professor who has been plotting his revolution for nearly two decades. Gingrich has synthesized the management theories of Peter F. Drucker and W. Edwards Deming and the futurist vision of Alvin and Heidi Toffler to create nine strategic principles that guide his agenda of minimalist government in the new high-tech global economy. With his flair for technology, Gingrich has created the first Information Age political machine—a computer-linked coalition of conservative think tanks, business groups, radio hosts, and Christian conservatives that has mobilized to hand him a series of victories.

5.

DECENTRALIZE

Give states and localities broad power over federal functions, including transportation, school lunches, Medicaid, and the arts

Demoralized Democrats note that even as Gingrich chalks up legislative successes, his negative ratings are soaring, while the President's popularity shows an uptick. "Very few people feel warm and cozy with Newt," says independent Georgia pollster Claibourne Darden. "Newt is an ideologue. He has all the warmth of a pine tree."

And though Democrats admire the Speaker's ability to dominate the national dialogue, they say that many segments of the public are coming to view his vision as extreme. "Everywhere you look, it's tilted toward the billionaires, the corporate special interests," says Representative Rosa L. DeLauro (D-Conn.). "They aren't concerned about kids or working families, veterans or senior citizens. That could help the Democrats."

6.

BRING EXCELLENCE TO GOVERNMENT

Speed purchases of technology, reform civil-service laws to weaken organized labor, and rewrite procurement policies to save money.

7.

BALANCE THE FEDERAL BUDGET

Cut some federal programs, transfer others to states, slow the growth rate of others. Find new options to overhaul Medicare and Social Security trust funds

Indeed, Senate Republican moderates acted on this sense of unfairness by blocking the House's legal reform and regulatory freeze.

Still, the Gingrich offensive has confounded the White House, which has adopted a tepid two-track strategy: a "me too" embrace of some reforms and an attack on others as extremist. Says American University political scientist James Thurber: "Newt's strategy is splitting the Democratic Party, and the President has been eclipsed."

Democrats are convinced that Clinton can reassert his power as President by vetoing hard-right legislation—or merely making the threat to do so. For instance, Clinton's pledge to veto a $16 billion spending-cut plan that exempted GOP pork sent Republicans scurrying to look for compromise, despite Gingrich's grousing that White House staffers reneged on a deal. Responds senior Clinton adviser George Stephanopoulos: "That's patently untrue."

8.

STOP VIOLENT CRIME

Build no-frills prisons, require prisoners to attend classes and learn job skills. Increase penalties for crimes involving guns

Gingrich isn't likely to sit down and make peace with Clinton any time soon. That situation leaves the Democrats hoping that Gingrich will overreach and suffer the fate of other radicals who have been consumed by their own revolutions. But confident Gingrichites believe that they are within reach of their ultimate agenda: the biggest political realignment in America since the New Deal.

9.

LEAD THE PLANET

Increase military readiness, assert American might around the world, and avoid multilateral alliances that submerge U.S. sovereignty

By Richard S. Dunham, with Lee Walczak and Mary Beth Regan, in Washington

INTERVIEWS

PLAIN TALK FROM SPEAKER GINGRICH

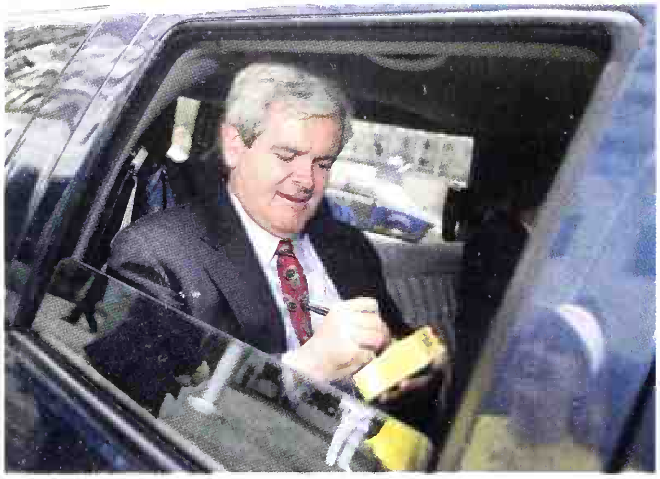
Newt mocks Clinton and expounds on the '96 campaign

Midway through one of the most productive—and polarizing—congressional sessions in history, House Speaker Newt Gingrich (R-Ga.) isn't slowing down. In a May 26 interview with BUSINESS WEEK, he outlined a vision of post-Welfare-State America. The GOP, Gingrich promised, would soon keep its pledge to balance the budget and cut taxes. He also vowed to revamp Medicare and complete a massive shift of power to the states. And then? He was coy: His coming New Hampshire visit, he allowed, could be to build support for his views, or it could be a scouting trip for a Presidential run. Excerpts:

Q: *Some Republicans prefer to balance the budget, then cut taxes. You want to do both at once. What's your rationale?*
A: It is politically impossible to sustain a balanced-budget coalition without cutting taxes. If we are the party that says to the average working American, "In seven years we might get around to a tax cut," and we're competing with a party that says, "What the hell, at least I'll give you something," then we will get beaten.

Q: *That's politics. What's the economic case for cutting taxes?*
A: First of all, unlike the Senate, we [in the House] are prepared to cut spending enough to pay for the tax cuts. Second, if you don't cut capital gains and create economic growth, you never get to a balanced budget. The third reason is that you want to send a signal that we are reestablishing the value of entrepreneurship.

Q: *House Republicans propose to cut taxes by $353 billion and trim $1.4 trillion from spending over seven years. The Senate formula is $170 billion and $1 trillion. Will the two sides, plus President Clinton, get together and reconcile their differences?*
A: [Clinton] is not in the room for reconciliation. The only way he can get in the room is to cross a watershed, and he won't look at the New Paradigm.



DONNA BINDER/IMPACT VISUALS

> “[If] 7 million people show up on Tuesday morning with a draft petition and beg me [I'll run for President]”

Q: *What's your prediction of the key elements of a compromise tax bill?*
A: I cannot imagine a bill coming out of conference without [a cut in] capital gains, a children's tax credit, an [IRA-type] savings account, and a tax credit for adoption.

Q: *And the bottom line?*
A: It might be $250 billion [in tax cuts over seven years] or a little more.

Q: *You're assuming that the Senate, which has made tax relief contingent on future spending reductions, really wants to cut taxes.*
A: We're not adjourning this year without a tax cut. [Senate Majority Leader Bob] Dole has said there will be a tax cut. I trust Dole, and he will deliver. Period.

Q: *Do you worry that taking $1 trillion of stimulus out of the economy might increase the risk of recession?*
A: No. Politicians should quit trying to micromanage the economy. I could make an argument that if the market really does believe that we are going to balance the budget, the drop in long-term bond [rates] will more than offset the loss of fiscal stimulus.

Q: *What if President Clinton vetoes some GOP bills, so you don't get $1 trillion in deficit reduction?*
A: He can veto the rescission bill because it cuts spending. The appropriations bills—if you don't sign them, there is no government. Which of the two of us do you think would be more worried by that?

Q: *So that's your strategy—provoke a showdown?*
A: We have many strategies. One of them is to work with the President. If he'd like to be in the room, he can be in the room. Our second option is to say: "We'll pass the bills that we think are right." But the two most recent [White House] fiascos are like vaudeville. One: the President goes to New Hampshire and says: "I think we can balance the budget in 10 years." His staff says, "What?" and he repudiates what he said. You sit there and you want to cry. Second: The President sends his staff to talk to [Senate Appropriations Chairman Mark] Hatfield and [House Appropriations Chairman Bob] Livingston. The aides say, "There's one thing we'll veto [in the rescission package]: if you block us from implementing the Executive Order on striker replacement." They take it out. We all go to bed thinking we've met the veto requests. We read in the *Washington Post* the next morning they're going to veto the rescission bill. That is just stupid. You say to yourself: "Why would you let them in the room?"

Q: *Do you support the President in his trade showdown with Japan?*

I'm refusing to disagree with the sident when he is directly negotiat- with the Japanese. After we get ugh, I'll comment in retrospect on this was strategically handled.

One tenet of your program is giving e authority to the states. What evi- ce do you have that the states are ly to assume this responsibility?
The states that have education de- ments with the most local autonomy sistently have the highest reading res. Every analysis proves that nized big-city schools fail. For 40 s we have shifted money out of the sroom, hired more labor bureaucracy, it's all garbage. You ought e able to go through every eaucracy and say: "If you t prove you're more valu- than a teacher, you're e."

GAMMA-LIAISON

"[Clinton] is not in the room for [budget] reconciliation. The only way he can get in the room is to cross a watershed"

Yet some state officials worry that they lack the urces to cope.
I don't know of a single essful downsizing CEO who ld agree. They all say, u will be astonished how h water there is in the em."

Why isn't campaign-fi- ce reform higher on your nda?
In a country where chil- are dying of drug addic- where children are illiter- and we have huge lems with Medicaid and icare, I think the prior- are to restructure the rlying system. Eventually, re going to get around to rethink- the campaign system. But I don't v when.

s there a way for government to re- s the rise in income inequality?
Eliminate the welfare state. The est single factor in the rise of in- lity is the collapse of the educa- l system and the rise of anti-en- reneurial, anti-property-acquiring and regulations, and anti-family, uctive rules, which collectively strip poor of their chance to be true ricans.

re you concerned that Americans nore protectionist than they used ?
They're not more protectionist, re more scared. They believe the l economy is a fact. They just don't a clue what we should do about it. [Patrick] Buchanan wing of America is pretty narrow. It won't be if the economy decays radically. You could have a [French rightist politician Jean-Marie] Le Pen movement in this country if you have a bad economy and bad leadership.

Q: *Would you support Buchanan if he were the GOP nominee?*
A: I'm not entertaining that question.

Q: *How do you explain the fact that at the same time you say your vision is taking hold, the President's popularity is rising?*
A: It's true he has risen into the doldrums. But "strong" is Eisenhower, Reagan, Bush at 70%. I don't regard getting to 54% as terrifying. This is a President who always improves his ratings every time he hides.

Q: *Why are your negatives so high?*
A: It's very hard to be a successful revolutionary and not have a large number of people think the things you're doing are not appropriate. Combine with that the transition from being a very partisan Minority Whip to the leader of the House and a national figure. I had unrelentingly negative press. And then, I did some things very clumsily.

Q: *Such as?*
A: One was the $4 million book contract. If I had said from day one, "I can't consider that kind of contract, I'll take $1," we'd have had 90% less flak. And I should have not talked honestly to reporters on Election Night about my analysis of Clinton. It is not the job of the leader of the alternative party. And I probably shouldn't have done daily press briefings. Given the nature of the Washington press corps, they are inherently adversarial sessions.

Q: *Is the current GOP field a strong group?*
A: It's a field that's going to beat Clinton. Any of the major players could.

Q: *Would it be easier to implement your vision if you were President?*
A: Sure. If you waved a wand tomorrow morning—I think that would be cool. First of all, in the current competition for defining where we're going, I'm doing fine. You look at the last six months and tell me which of the two offices [the White House or the Speaker's office] has been more effective. I don't have a clue as to how you'd do what I do in terms of educational leadership, and as Speaker, and run for President at this point in my life.

Q: *Do you foresee any circumstances under which you would run?*
A: Sure. Seven million people show up Tuesday morning with a draft petition and beg me. Even Eisenhower came back from Paris. I don't have any compulsive urge to run for President.

Q: *So why are you headed to New Hampshire on June 9?*
A: There are two ways to look at this. One is that this is a good way to cover your bet. The other is, assume for a minute that I have no intention at all of running, that I really want to shape the debate. Where would you go to maximize the impact of what we're saying? Des Moines and Manchester.

Q: *What is the most important thing you learned in your first months in power?*
A: The key is leading the culture, not leading the government. Because if you change the direction of the entire dialogue, everything else falls in place behind it.

Q: *What's the biggest risk to your agenda?*
A: This is very, very hard. I worry that the number of smart things that we have to do simultaneously over the next year—and the number of dumb things we have to avoid—is so large that sheer exhaustion will break us.

FOREIGN POLICY

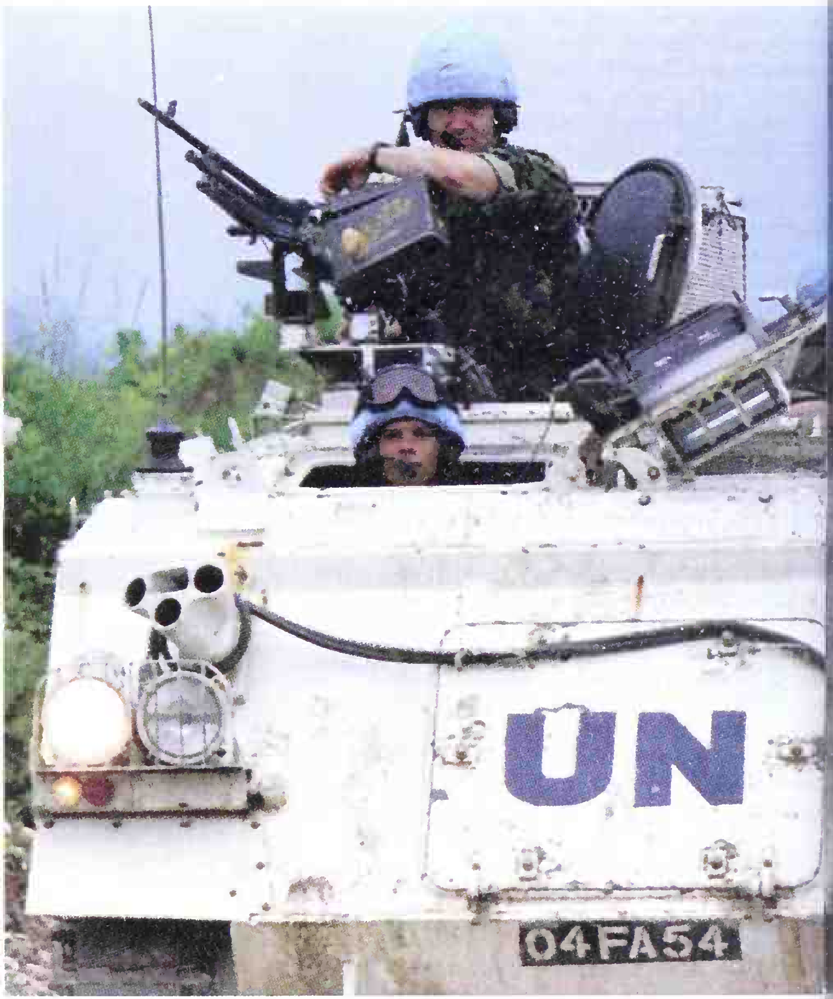
BILL CLINTON'S WORLD OF TROUBLE

From China to Bosnia to Japan, the President's foreign policy is drawing flak

The Foreign Policy President? Not Bill Clinton. He came into office determined to tackle America's domestic problems. Even after Republicans won control of the Congress in 1994, foreign policy remained largely a sideshow to high-stakes political battles over fiscal and social policy being waged from both ends of Pennsylvania Avenue. Now, suddenly, with disputes flaring up in Asia and Europe, the world stage is looking treacherous for Clinton. The question: Can the President maneuver deftly enough to defuse the spiraling crises?

It has been open season on Clinton's handling of world affairs ever since his controversial Moscow summit with Russian President Boris Yeltsin in early May. Clinton made a rookie error: He raised expectations for the meeting, then came home empty-handed. Such muffed maneuvers have become standard, critics carp. After three years in office, the Clinton team still operates ad hoc, often failing to win international backing for its initiatives. "We're always too ramshackle, we've never been smooth," admits Raymond G. H. Seitz, former U. S. Ambassador to Britain.

TAIWAN FLIP-FLOP. That's glaringly obvious as troubles break out around the globe. China, incensed at Clinton's last-minute decision in May to allow Taiwanese President Lee Teng-hui to visit the U. S., has abruptly halted all high-level military exchanges with the U. S. Many China watchers fear Beijing will retaliate further by reneging on pledges to curb missile sales. Clinton's flip-flop, coming after months of insisting Lee wasn't welcome in the U. S., possibly could even cost U. S. companies some juicy contracts in the booming markets of the Middle Kingdom. "We're waiting for the other shoe to drop," says Thomas D. Gorman, chairman of the American Chamber of Commerce in Hong Kong and president of CCI Asia-Pacific, a Hong Kong-based publisher.



The economic stakes are even higher in America's acrimonious dispute with Japan over autos and auto parts. A full-blown trade war could erupt on June 28, when sky-high U. S. tariffs on impo
Japanese luxury cars are set to go
effect. Trade hands are counting on
usual eleventh-hour compromise to a
disaster, and there are rumors of
newed talks. Still, neither side se
willing to blink.

As if that weren't enough, telev

Too often, the Administration launches new policies without shoring up international support ges of French and British soldiers ned to Serbian military installations Bosnia illuminate the lack of cred- U.S. leadership. Washington has n in the awkward position of urging strikes on Serb strongholds without g willing to put U.S. troops at risk. in a May 31 speech, Clinton for the time said he would consider dis- hing ground forces to Bosnia to help eploy or rescue U.N. peacekeepers.

-TOUGH TACTICS. For Clinton, all amounts to a sudden comedown. l Bosnia, his Administration seemed e finding its foreign policy footing af- a series of blunders early on. Last U.S. troops restored Haitian President Jean-Bertrand Aristide to power out firing a shot. U.S. trade nego- 's blunted China's bid for easy en- nto the new World Trade Organiza- and signed an accord with Beijing strengthens Chinese protection of ican intellectual property rights. the President's get-tough tactics Japan are playing to mostly favor- reviews in U.S. business circles— ould yet prove a shrewd gamble. d, top U.S. and Japanese officials alks may resume in mid-June.

t even on Japan, a combination of factors still could trip Clinton up. These days, economic muscle often counts for more than military might. Yet Uncle Sam is broke. That has emboldened Japanese officials to dig in their heels against U.S. demands that Tokyo open up its auto market. Years of writing fat foreign aid checks to its neighbors assures Japan of strong Asian backing for its stance. And having failed to muster European support in advance, Washington finds itself on the losing side of the global public-relations battle.

On Capitol Hill, wholesale micromanagement of foreign policy isn't making the President's job any easier. Take the furor over Taiwan, which China regards as a renegade province. A bipartisan coalition of lawmakers threatened to rewrite immigration laws to let Lee into the country unless Clinton granted him a visa. The President reluctantly acquiesced—blaming Congress for making him do it.

Similarly, draconian legislation championed by Senator Alfonse D'Amato (R-N. Y.) drove the Clintonites to impose a broad trade ban on Iran, to the consternation of the Europeans and Japanese. And many GOP critics of Clinton's Bosnia policy are calling for congressional restraints on further U.S. action, even though they once howled for punitive air strikes on Serb strongholds.

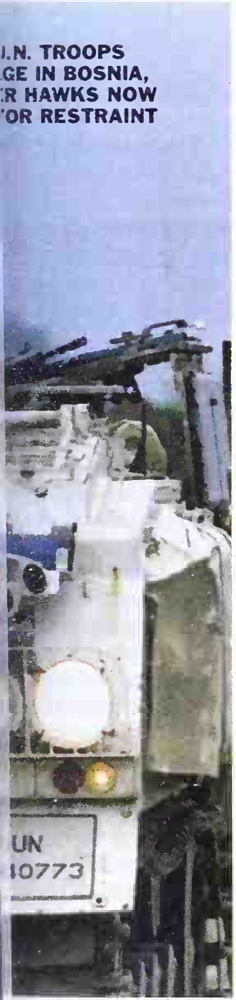
Many in Congress want to go much further in crimping Clinton's ability to act decisively overseas. Pending foreign affairs bills in the House and Senate include provisions that slash foreign aid, direct the President to appoint an envoy to Tibet, and deny visas to foreigners who do business with Cuba. "It's a broad-brush assault on the President's conduct of foreign policy and his foreign policy agenda," says Arnold Kanter, senior associate at the Forum for International Policy in Washington and a top State Dept. official in the Bush Administration.

The Clintonites wouldn't be in such hot water if they had more of a gift for mapping strategy. Case in point: Taiwan. The groundswell of domestic political support for Lee's visit should have been obvious to Administration policymakers months earlier. But U.S. officials failed to prepare the Chinese and did not wring concessions from Taiwan or Congress for their policy flip-flop.

Too often, Clinton launches foreign policies without thinking them through or shoring up international support. For instance, hostage-taking by the Serbs was a predictable consequence of the NATO air attacks in Bosnia. Yet as the leading proponent of using airpower, the Administration didn't have a fallback plan. "Clinton has caused problems for himself and the U.S. by failing to have a consistent plan of action that thinks two or three steps ahead," says former State Dept. policymaker Robert B. Zoellick.

Clinton will get a chance to redeem himself at a summit of the leaders of the seven major industrial countries that starts June 15 in Halifax, Nova Scotia. Bosnia seems sure to be on the agenda. And the President will have a chance to press Japan yet again on its auto market. Getting bogged down in such issues is the last thing Clinton needs as he girds for budget and welfare-reform battles with Congress. But he knows he must do a better job in dealing with them. The global stakes are too high for him to remain just the Domestic Policy President.

By Amy Borrus, with Stan Crock, in Washington and Joyce Barnathan in Hong Kong



.N. TROOPS
GE IN BOSNIA,
R HAWKS NOW
OR RESTRAINT

GAMMA-LIAISON

U.S. Foreign Policy: Where Sparks Are Flying

CHINA	A yearlong U.S. bid to nurture economic and security ties with Beijing could be derailed by Chinese ire over Clinton's sudden decision to let Taiwan's President visit the U.S.
JAPAN	Washington is poised to launch a trade war with Tokyo on June 28 if both sides fail to resolve a dispute over autos and auto parts. Negotiations may restart in mid-June.
IRAN	Europe and Japan have rebuffed Clinton's call for a broad embargo on Tehran.
BOSNIA	The American-led policy of using NATO air strikes to halt Serb advances collapsed as Serbs took U.N. peacekeepers hostage, straining U.S.-European relations.

DEALS

'THIS IS JUST THE SECOND INNING OF A NINE-INNING GAME'

Will Kerkorian use Wasserstein to strike a deal with Chrysler?

Is Los Angeles billionaire Kirk Kerkorian scrapping his attempts to take over Chrysler Corp.? At first, that's the way it looked on May 31, when Kerkorian announced that he had withdrawn his $20.5 billion bid for the company. But Kerkorian also announced that he had hired Wasserstein Perella & Co. as his investment banker. And Alex Yemenidjian, Kerkorian's right-hand man, sounds every bit as defiant as the day Kerkorian first made his offer for the auto maker: "We're not going away, this is just the second inning of a nine-inning game," Yemenidjian says. "We're in it for the long haul."

EATON: NO QUARTER

KERKORIAN: NO ALLIES

SALES JOB Eaton has convinced the Street that using Chrysler's $7.3 billion cash hoard for a buyout would be a serious mistake

Bluff? Bluster? Or is Kerkorian getting ready for another gambit? Kerkorian's troops contend it's a case of the latter: They say they're still sounding out potential partners and financial sources, including at least one overseas carmaker, and foreign lenders.

Wall Street, which has never embraced Kerkorian's underfinanced $55 a share bid for the nation's third-largest car company, figures Kerkorian may try to use Wasserstein Perella dealmaker Bruce Wasserstein as his emissary to Chrysler Chairman Robert J. Eaton. The goal: to cut a deal to dump Kerkorian's $1.6 billion, 10% stake in Chrysler. "Kerkorian wants to continue conversations with Chrysler, and Wasserstein gives him credibility," says arbitrageur George A. Kellner of Kellner Dileo & Co. "But Kerkorian will have to come up with real backing before anyone is going to pay attention to him." Yemenidjian denies the shares are for sale.

STATE OF FLUX? Sources in the Kerkorian camp say that they're still working on a consent solicitation, which would allow them to directly contact Chrysler's shareholders to oust board members who have so far resisted their overtures. The sources say Yemenidjian has talked with German carmaker Daimler Benz, among others. Wasserstein Perella, meanwhile, will reexplore strategies—everything from a revamped takeover bid to trying to force Chrysler to raise its dividend, which has been doubled, to $2 per share, since December. "We wouldn't take someone on if we felt we were being used as a face-saving device," says Michael Biondi, managing director at Wasserstein. "We know they're in this for the long haul."

The difficulty: Few outsiders believe that Kerkorian ever will mount a credible takeover threat. Daimler Benz and other potential industrial partners deny any interest. Indeed a source close to Chrysler's board claims that in late May Daimler signed a written pledge not to buy Chrysler shares.

Eaton, moreover, has convinced Wall Street and many major shareholders
that using most of the company's
billion cash hoard for a leveraged
out would leave the carmaker dan
ously vulnerable in a downturn. F
bid to succeed now, Kerkorian w
need to double the $3 billion in
tional equity he had planned to
up, says Theodore Shasta, vice-p
dent at Loomis Sayles & Co., a m
shareholder.

Other complications would ma
revised bid even more problem
Friends and former Chrysler ex
tives say Eaton and other top ma
ers have vowed not to stay on if
korian succeeds in putting togeth
buyout. Since the executives have
well—and Kerkorian had planne
include them in his bid—their thr
ened departure might d
potential investors from b
ing Kerkorian.

PRESSURE POINT. Lining
nancing has gotten tough
well. Under terms negoti
in early May, a new $8 b
line of credit for Chrysler
nance subsidiary would hav
be renegotiated if the com
changed hands. And a hi
leveraged parent comp
would make banks shy a
from further lending. Ana
and Chrysler shareholders
lieve Kerkorian would
forced to sell Chrysler Fi
cial Corp., placing the carm
at a marketing disadvanta
major rivals, which all run
own finance operations. "W
out [more] money, this b
stillborn," says one invest
banker.

The Kerkorian forces
mantly deny they will tr
cut a deal for their sh
"Absolutely not. We hav
been hired to sell his st
growls Ellis Jones, the
serstein Perella managin
rector who signed on Ke
ian as a client. But ev
Kerkorian does not sell o
mount another takeover, Chrysler
utives can't ignore the gambling
coon, given his huge stake. What
else Kerkorian does or does not d
seems sure to keep the pressur
Chrysler's management to boost
company's share price. "I don't
anybody here believes he's going a
says one Chrysler official. Not
away, in any case.

By Ronald Grover in Los An
and David Woodruff in Detroit,
Leah Nathans Spiro in New York

(L TO R) PHOTOGRAPHS BY MICHAEL L. ABRAMSON, DAVID LEE WAITE/SYGMA

LOOK WHAT'S NEW AT SEARS HARDWARE!

TOOL TIME: *"Authorized dealers" sell to former Big Book rural customers*

ATEGIES

HERE SEARS ANTS AMERICA TO SHOP NOW

onsumers forsake the mall, it returns to Main Street

hen Earl Jahnke, 78, needs replacement blades for his Sears Craftsman grass trimmer, he drive to the Sears, Roebuck & store at the Hawthorn shopping in Vernon Hills, Ill. Instead, the d plant manager skips the 25-mile and the mall parking hassle and his blades at a local hardware . A lost sale for Sears? Hardly. It the hardware store.

s a major departure from Sears' les-old strategy of locating cavern- eneral-merchandise stores in shopmalls. This year, Sears is opening a of freestanding stores on commer- trips and in small towns. Its think- The number of shoppers visiting has tailed off since 1990, as has construction. "If the company s to grow, we have to look off the ' says Marv Stern, president of Home Group.

SING ROOM. Sears has been playing pieces of such a strategy since when it opened the first of its tanding hardware stores. Now, h, the company says it is fully em- g the new direction. It won't discuss how much it will invest but says it expects to open 50 hardware, 30 furniture, and 80 rural "authorized dealer" stores by yearend. By 2000, it hopes to expand to 500 hardware stores, 250 furniture stores, and 800 dealer outlets.

Such plans are the doing of Arthur C. Martinez, Sears Merchandise Group chief executive. Since taking charge of the division in late 1991, Martinez has renovated hundreds of dated stores and upgraded apparel quality, lifting operating profits to $890 million last year from 1992's $2.9 billion loss. Now, Martinez, who will succeed Edward A. Brennan as company chairman in July, is looking to free up even more space for apparel while finding new avenues of growth.

To do that, the retailer has focused on three new stand-alone chains. One, called Sears Homelife, will sell all of Sears' furniture and mattresses by 1997. Sears also is developing the network of dealer stores featuring appliances, electronics, and home and garden gear to serve the rural areas it largely abandoned when it closed its catalog operation in 1992. And the hardware stores, mainly in urban areas, are aimed at expanding sales of such well-known Sears home-improvement brands as Craftsman tools and Weatherbeater paint.

More store concepts may be on the way. At a May 24 meeting with Wall Street analysts, Martinez said Sears might accelerate the expansion by acquiring a furniture chain—or an auto service chain to complement Sears' mall-based auto business. Analysts applauded the notion. "This [new strategy] has great potential to be a big winner for Sears," says retail consultant Alan Millstein. "Their brand equity is unequaled."

WRENCHES TO GO. Indeed, early results are encouraging. The rural dealer stores are producing average gross sales of over $1 million each in their first year, exceeding expectations. In hardware, Sears says it already has found a lucrative niche by focusing on do-it-yourself home remodelers who want to get in and out of the store quickly. In Columbus, Ohio, where it has opened 10 20,000-square-foot hardware stores in addition to its three full-line stores, Sears claims its home-improvement market share has doubled. All the hardware outlets it has opened in the city are profitable.

Still, the hardware business is hotly competitive, pitting aggressive neighborhood chains such as Tru-Value Hardware and Ace Hardware against the home-improvement behemoths, Home Depot Inc. and Builders Square Inc., which are expanding rapidly into new markets. Sears admits that its furniture stores, meanwhile, haven't been wildly successful: With consumers unwilling to spend consistently on big-ticket items, results of that chain have climbed and dropped with durable-goods cycles.

Which is to say, Sears isn't writing its big department stores off. The retailer says it remains committed to rejuvenating its 800 mall-based stores with better brand-name apparel, cosmetics, and jewelry. And when the spin-off of the Allstate Insurance Group unit is finalized in July, Sears again will be focused purely on retailing, a focus that may be the key part of Martinez' plan. He's proving that in retailing, strategy is more important than scale—and not every sale is made at the mall.

By Susan Chandler in Chicago

ff The all

HARDWARE This year, Sears will open 50 Sears Hardware stores stocking tools, hardware, and garden items. By 2000, it wants 500.

FURNITURE Sears furniture will be sold in Homelife stores. The chain plans to open 30 in 1995 and wants 250 stores by 2000.

SEARS DEALERS Since June, 1993, Sears has opened 301 independently owned rural stores. By 2000, it wants 800.

OMPANY REPORTS

PHOTOGRAPH BY MICHAEL L. ABRAMSON, ICONS BY ROB DOYLE/BW

INVESTIGATIONS

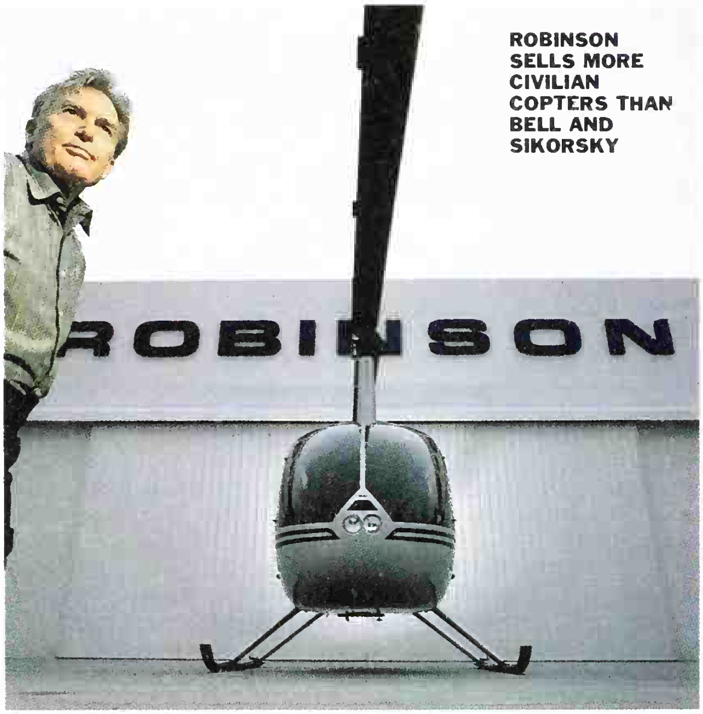
33 CRASHES: DESIGN FLAW OR PILOT ERROR?

The FAA is under pressure to ground Robinson Helicopter

Twenty years ago, Frank D. Robinson was designing helicopters on drafting tables he set up in the living room of his home in Rancho Palos Verdes, Calif. Today, Robinson Helicopter Co., of which he is founder and CEO, produces more civilian choppers than any other maker in the world. Police agencies use the Torrance (Calif.) company's lightweight R-22s for air patrols. Radio stations track traffic with them. Hundreds of executives commute in the two-seaters. Because they're relatively inexpensive—$110,000 each, a fraction of the cost of the bigger models made by rivals Bell Helicopter Textron and Sikorsky Aircraft—8 of 10 flight schools depend on them for pilot training.

But along with the growing popularity of Robinson's aircraft has come a troubling string of crashes. During the past 15 years, 57 people have died in 33 in-flight breakups of Robinson helicopters, according to the National Transportation Safety Board.

The family-run company attributes most of the mishaps to pilot error and inexperience. And the Federal Aviation Administration, which is free to accept or reject recommendations the NTSB makes based on its investigations of accidents, agrees: The agency has consistently refused to ground Robinson copters.



ROBINSON SELLS MORE CIVILIAN COPTERS THAN BELL AND SIKORSKY

Claims by federal investigators that the choppers are faulty are "without any basis in fact," says Robinson

DAVID STRICK

FIGHT OR FLIGHT. On June 6, however, the NTSB board will review a new study of accidents involving the R-22 and its larger cousin, the four-seat R-44. The report's conclusion: The crashes stem from a design flaw. Based on the study, aviation sources predict, the board may renew its call for grounding the helicopters until the company fixes the problem. "The accidents are very similar, and they're still unresolved," says John B. Drake, the NTSB's chief aviation engineer. "We're concerned that we may have more in the future just like them."

An FAA spokesman says the agency hasn't seen the report yet but is still leaning against grounding the 855 Robinson helicopters that fly in the U.S. After the NTSB on Jan. 6 urged the FAA to ground the copters, the agency instead issued an alert, advising pilots not to fly the craft in severe turbulence. Two days later, the FAA made the advisory mandatory, and on Feb. 23 it issued a rule requiring special pilot training for R-22 and R-44 fliers. On May 25, it also issued an order restricting pilots from performing a tricky flying maneuver in Robinson copters.

Frank Robinson argues the FAA is taking the right approach. If NTSB investigators "continue to push that [d flaw] theory, they're doing it wi any basis in fact," he says. Rather ground the helicopters, which he tends have a sound design, the should emphasize "better trainin the part of pilots and more restric on flight instructors." Because his pany has popularized affordable hel ters, it has become a "guinea pig regulators trying to grapple with a trend, Robinson says. Many f schools support his view. Larr Durocher, president of Northeast copters Inc. in Ellington, Conn., pr Robinson copters as among the w safest.

Purchases from such loyal custo pushed Robinson to sal $47 million last year, Frank Robinson says company is profitable. it has attracted NTSB cism almost from its lau In 1982, an R-22 broke midair near Paige, Safety investigators c for the FAA to ground helicopters until cha were made to its rotor tem. The FAA, however, cluded that the R-22 m design requirements an lowed it to keep flying. inson blames the crash pilot error.

STORMY WEATHER. But problems continued. F 1983 to 1994, the NTSB s an additional 32 chop broke up in flight after helicopters' rotor blades the fuselage or tail. And year, R-22s and R-44s v involved in four similar— fatal—crashes, three in rope. The U.S. mishap curred on Sept. 28, whe R-22 piloted by business Robin D. Trogdon, 35 Garner, N.C., broke a shortly after takeoff. Ro son again says the ca was pilot error.

Will the FAA continue to let Robi copters fly? The agency says it's w ing with Robinson on enginee changes to prevent the speed of the tor blades from slowing—a caus many of the accidents. The NTSB, h ever, doubts that will fix the probl It's hoping its report will pressure FAA to take a tougher stand.

By Christina Del Valle in Wash ton and Larry Armstrong in Angeles

YTAG WASHES T A RED STAIN

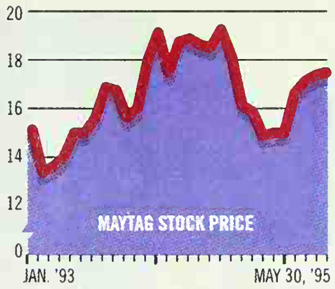
ing a losing unit makes the liance maker buyout bait

ver mistake Chief Executive Leo-
ard A. Hadley for Maytag Corp.'s
'lonely repairman." Since taking
the company's top spot in 1992,
y has poured more than $300 mil-
nto stodgy factories, overhauled
ompany's product line, and re-
rated lackluster marketing efforts.
lay 30, Hadley made his biggest
yet, selling Maytag's loss-plagued
er Europe unit to Italy's Candy
70 million.

fixing so many problems, though,
y may have created another: May-
self may be up for grabs. Shorn of Hoover Europe, some analysts think the company is now an attractive target for a foreign buyer looking to crash the lucrative North American appliance market. Says ex-Hoover Group President Frank Vaughn: "I'm sure there are a lot of companies looking at them."

Indeed, Maytag presents an attractive entrée to the U.S. In Maytag and Jenn-Air, it owns some of the nation's best high-end brands. And last year, its net income rose 189%, to $147.9 million, on sales of $3.4 billion. One Wall Street analyst believes Maytag could be bought by the end of 1995, fetching as much as $3.5 billion. Likely bidders: German appliance maker Bosch-Siemens Hausgeräte, as well as Korean manufacturers Hyundai, Samsung, and LG Group.

SLOSHING AROUND



▲ DOLLARS DATA: BLOOMBERG FINANCIAL MARKETS

Most investors had hoped for a buyer in the early 1990s, when Maytag was floundering. The low point: a promotion that offered British customers, among other premiums, free air travel to the U.S. for a purchase of $375 or more. The deal attracted 200,000 takers, forcing $72.6 million in pretax charges. Two years later, says Raymond A. Perrier, brand-evaluation director for Interbrand Group, "their image still hasn't recovered completely."

That's why nobody cried when Hoover Europe fetched $50 million less than analysts predicted. "It's good the problem is behind them," says Merrill Lynch & Co. appliance-industry analyst Jonathan L. Goldfarb. The problem now: staying independent.

By Kevin Kelly in Chicago

LL HOUSE TION?

xury tract-home builder to replicate its success

bles are big this year. In the ex-
rban frontiers of eastern Pennsyl-
ania and western New Jersey,
perch atop dozens of new look-
$400,000 houses on look-alike plots.
are unique—in a suitably stan-
way. They are American. They are
uff of Toll Brothers Inc.

brothers—that's Robert, 54,
ruce, 52—have
a fair bit of
over 28 years
"semi-custom"
for the well-to-
he formula is
They combine
land with bor-
, proven designs
ll the bells and
les they can
r. And the mar-
right: Expen-
ouses continue
ve well, even as
roader market
off. Since 1991,
untingdon Val-
a.) company has
tripled its
to $504.1 million
ear, boosting its net income sevenfold, to $36.2 million.

TOLL BROTHERS
HOMESITE
# 24

BOOMERVILLE: *$400,000 buys the cookie-cutter home of your dreams*

Toll Brothers is, in fact, the biggest builder of luxury homes in the U.S. Now, the brothers have begun expanding well beyond their East Coast stronghold by building a modest number of homes in North Carolina, Southern California, and Florida. Texas is next.

Why mess with success by poking around unfamiliar ground? It could be that Toll Brothers is running short of room to grow. Given that new-home sales nationwide fell 2.7% in April, the Tolls are posting respectable results. But after 1993's 44% gain in backlogged orders, their backlog rose just 15% in fiscal 1994. This year, analysts at Montgomery Securities expect it to grow less than 6%—and Chief Executive Robert Toll says traffic and sales are down some 5% in many of his developments.

On its side, Toll has baby boomers—in large quantity. Crows Robert Toll: "The demographics are great for our business." The typical Toll customer, between 35 and 54 years old, comes to the table with a household income of at least $90,000. Like Reginald D. Boone, a 50-year-old self-employed benefits consultant who paid $513,000 in April for a four-bedroom Toll house outside Rockville, Md., such customers haven't backed off big housing buys. "So far, the economy for those people is still fairly strong," says Matthew V. Roswell, a housing analyst at Legg Mason Inc.

CATHEDRAL CEILINGS. The growth of Toll Brothers has a lot to do with sharp, conservative management, too. It scouts out cheap land parcels being unloaded by distressed developers, banks, or other motivated sellers. With low initial outlays, the company can make money on developments of 10 houses or 100. Toll architects borrow ideas from other upscale developments, then incorporate what sells best into a few standard designs. Customers can choose from the basic Federal, the Provincial, or the Chateau, among others, then customize with brick, stucco, or stone facing and a host of add-ons. An additional fireplace goes for $3,400; a master bath complete with a cathedral ceiling and whirlpool costs about $8,500.

Wall Street thinks the Tolls can make their formula work west of the Allegheny River and south of the Chesapeake Bay. With interest rates down again, in fact, Toll shares are up 65% since early December. But finding sites in California isn't as easy as the old days, when the brothers could scoop up parcels just by motoring around New Jersey. Monitoring work a continent away may not be as simple as keeping an eye on the project across town. And gables may not fly in L.A.

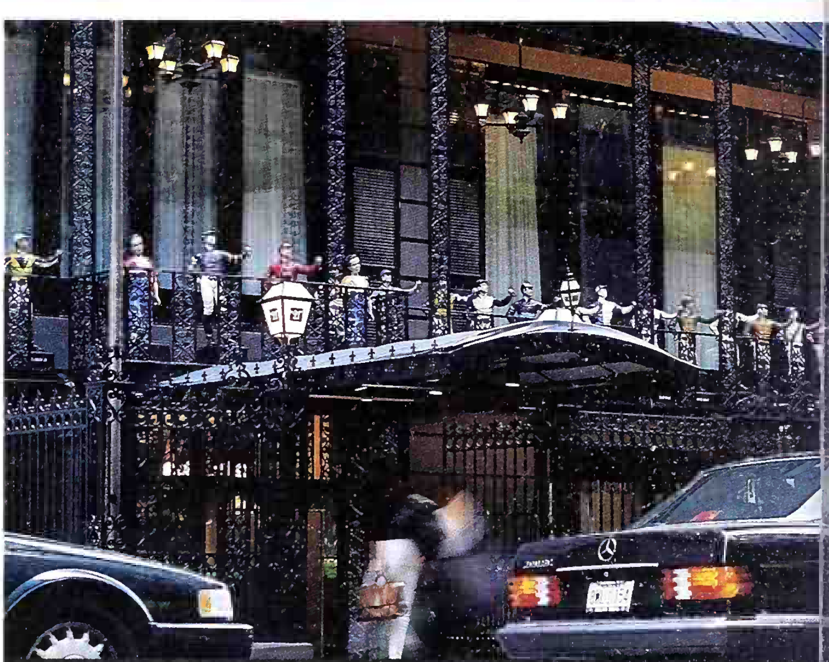
By Joseph Weber in Huntingdon Valley, Pa.

GRAPHIC BY ALBERTO MENA/BW. PHOTOGRAPH BY JOHN S. ABBOTT

LANDMARKS

PRICIER THAN THE MENU

Marshall Cogan is selling the '21' Club. Dig deep



KETCHUP IS FREE: *A burger at the famous eatery will set you back $21.50*

Unquestionably, there is an aura to the '21' Club. In 75 years, the former Prohibition-era speakeasy has been the haunt of Humphrey Bogart and F. Scott Fitzgerald, the host to every U.S. President since Franklin D. Roosevelt. In the private-stock area of its musty wine cellar, Elizabeth Taylor's bottle of 1964 Chateau Lafite-Rothschild rests just above Ivan Boesky's favorite red. And its famous hamburger is priced at $21.50—though fries are included.

Little wonder, then, that word on May 24 of the '21' Club's impending sale drew hushed, shocked murmurs in New York's corridors of power. Or less hushed: "Vegas Bigs Eyeing N.Y. Eateries," the *New York Post* headline screamed. Yes, New York industrialist, leveraged-buyout specialist, and '21' owner Marshall S. Cogan was looking to deal his restaurant. "I'm fundamentally interested in what's best for '21,'" Cogan says. Several casino operators, including erstwhile Chrysler Corp.-hunter Kirk Kerkorian, were said to be in the hunt.

THE PITCH. Cogan has retained his longtime buddy, New York investment banker Roy L. Furman of Furman Selz Inc., to locate a buyer. Furman's sales pitch, say those he rang up, is direct: The '21' Club posted a profit of close to $2.5 million last year and should do "better" this year. For $40 million, Cogan would sell the property immediately, Furman confided to at least one casino executive in late May.

In truth, '21' is worth far less. It almost certainly is losing money. Associates say Cogan has tried for years to unload the restaurant. And the casinos aren't interested.

Cogan's numbers fail to reflect any debt service on both the $21 million Cogan paid for the restaurant in 1985 and $10 million in subsequent capital improvements. Since Cogan's private investment vehicle, '21' International Holdings Inc., is closely held, he is able to account for the debt elsewhere. Add in the financing costs on both the original purchase and the improvements, and the '21' Club has never turned a profit, say numerous sources inside and outside his operation. A Cogan associate acknowledges that the profit numbers shown potential investors do not include interest but says they fairly reflect the club's operating value.

Cogan, say casino and restaurant operators, bought near the top of the market and badly overpaid. The millions he has spent since to add two state-of-the-art kitchens and to refurbish the historic barroom, they say, likely will never be recouped. "The '21' Club might be worth half what they're asking," says one casino executive who says he was contacted by Furman. "Marshall bought himself a very expensive toy, and now he's stuck with it."

Since the for-sale sign was hung, Cogan's public-relations executives have eagerly passed on rumors that several Las Vegas companies supposedly were eager to buy the club. Cogan's theory:
the right operator—say, a gamin
hotel business—the '21' Club's r
would have immense franchise val

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But none of the casino compa
floated as potential bidders—ar
them MGM Grand, Mirage, and Ball
have any interest in buying the re
rant. Franchise value? Says Robe
Stanton, a Manhattan-based bus
broker specializing in private deals:
hard to imagine a buyer getting
value from licensing the name. It's
matter to own the '21' Club, but it'
other matter to recreate one."

TRADEMARK TUNA. So why is Cog
hot to sell? He says the timing
prompted by unsolicited buyer inte
his spokesman denies that he has
to sell before. But it could be he'
tired of losing money. Further, the
delight that stems from munchin
his trademark grilled tuna lunch
little table just inside the main d
room may be wearing off. "It's
that since Cogan bought the plac
has improved it a lot," says Tim Z
co-publisher of the *Zagat Resta
and Hotel Survey*. "But I suspect
he's getting tired of the problems t
and he's ready to move on."

Cogan just might get lucky
find another wealthy status seeke
ing to pay for the prestige of ov
the '21' Club. Maybe Donald Tr
"No interest!" barks a Trump sp
man. So unless Cogan has an a
his sleeve, it looks like he's hold
losing hand.

By Willy Stern in New

PHOTOGRAPH BY FREDERICK CHARLES; GRAPHICS BY ALBERTO MENA/BW

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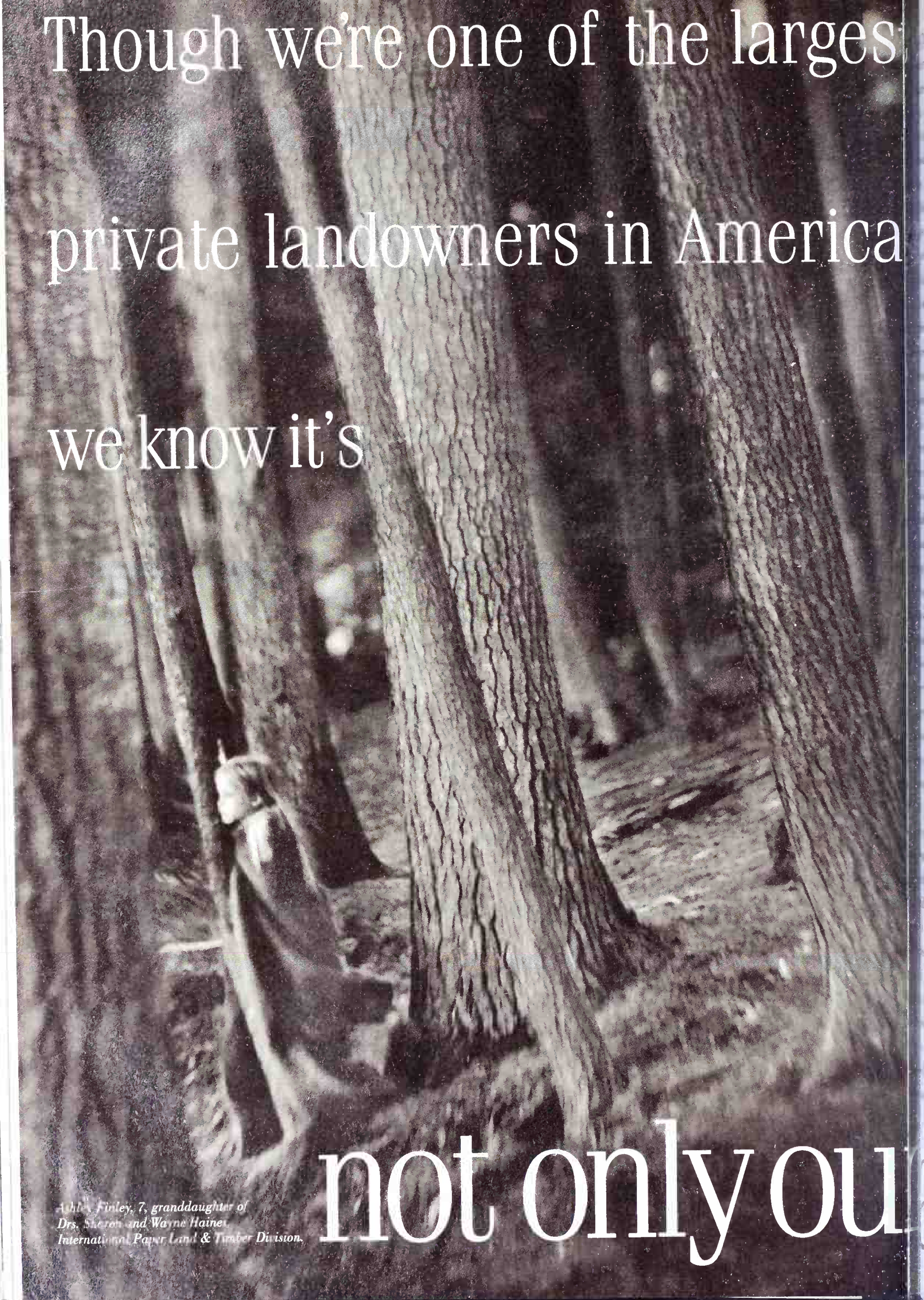
Though we're one of the larges
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we know it's
not only ou

Ashley Finley, 7, granddaughter of Drs. Sharon and Wayne Haines, International Paper Land & Timber Division.

AT ARE THE ISSUES?

iternational Paper owns or
iges over 6,000,000 acres of
in America.

ith that ownership comes a
onsibility to protect and care
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elieve that a balance must
between land preservation
and utilization.

e know there are millions of
e who rely on our forestland
fferent yet important reasons.
need lumber to build homes.
need tons of paper to run
businesses. Some just want a
to go camping or fishing.

ese are not complicated
es. But satisfying them
es complex personal, busi-
nd global issues.

you're an environmentalist,
ay ask how the ecology of
orest will be safeguarded
t wildlife will always have
rishing habitat. If you're a
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growing, while maintaining
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t, you may wonder if your
ren and your children's
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ch to experience nature.

ciding how best to use the
's land will be debated for
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it is an environmental and
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ch on the health of our
as anything we do.

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INTERNATIONAL PAPER

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In Business This Week

EDITED BY KEITH H. HAMMONDS

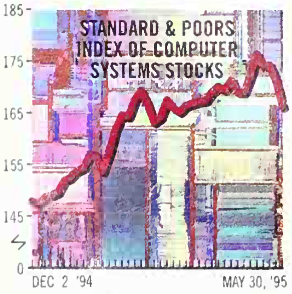
WELCOME TO RECALL COUNTRY

AFTER DROPPING UNTOLD MILlions over the decades to dispel any notion that cigarette smoking is bad for us, Philip Morris is spending a further $200 million to acknowledge a health risk. On May 26, the tobacco giant recalled 8 billion cigarettes after discovering a pesticide and respiratory irritant in some of its filters. One of the largest consumer recalls ever went remarkably well: Philip Morris dispatched 5,000 employees to contain the damage, launched an information campaign in U.S. newspapers, and sent thousands of telegrams to customers. "They did in a weekend what should have taken weeks," marvels Gregg Wellinghoff, president of wholesaler Keilson-Dayton.

CLOSING BELL

SYSTEM CRASH

The eight-month rally in technology stocks hit a wall on May 30. IBM fell big. Microsoft fell bigger. Biggest of all: Semiconductor giant Intel, which dropped 5⅞, to 110⅛, after a 90% runup since Christmas. Why the carnage? "Summer has traditionally been the time demand tends to slow down," says Sanford C. Bernstein analyst Vadim Zlotnikov. And investors fear that shortages of CD-ROMs, memory, and monitors could keep prices high for personal computers and chips.



DATA BLOOMBERG FINANCIAL MARKETS

STEVE BOLJONIS

THE FAA'S FAITH IN BOEING

A COUP FOR BOEING AND ITS president, Philip Condit: On May 30, the Federal Aviation Administration granted unprecedented approval for the company's 777 plane to begin over-water flights without two years of in-service tests. This promises to broaden the immediate market for the 777—and bolster Condit's chance of succeeding CEO Frank Shrontz by yearend. Condit headed the 777 launch, working closely with customers and employing new computer-based design methods and engineering-manufacturing teams. The first 777 arrived on time—May 17.

ICED COFFEE LEARNS NEW TRICKS

LET 1995 BE REMEMBERED AS the year cold, bottled coffee swept America. Or tried to, at least. Coca-Cola and Nestlé Beverage are test-marketing four flavors of Nescafé ready-to-drink iced java in Burlington (Vt.) groceries. PepsiCo, meanwhile, is testing Mazagran, a sparkling coffee drink, in two Santa Monica (Calif.) Starbucks cafés and is planning to try a bottled version this summer. And InterBevNet, based in Dallas, expects to introduce Zydecola, a coffee-cola hybrid, in Louisiana and Texas tests. The limited track record for such products isn't great: "The market is still waiting," says beverage consultant Tom Pirko.

MIGHT ALCATEL FACE A TOTAL REVAMP?

SERGE TCHURUK COULD BE just the guy to take the reins at troubled French telecom giant Alcatel Alsthom. As chief executive of France's Total, he achieved an impressive turnaround in five years, doubling oil and gas revenues while streamlining from top to bottom. At Alcatel, whose board nominated him on May 30 to be CEO, he will assume control of a company whose profits have plunged 40% amid a string of legal scandals. Tchuruk is likely to speed restructuring, wean Alcatel from heavy dependence on cozy government contracts, and devise a new strategy for deregulating markets rapidly.

HEADLINER: JERRE STEAD

SEVERANCE FROM HEAVEN

Nice deal if you can get it: After just five months as chairman of software maker Legent, Jerre Stead stands to collect $15 million. That's the payoff expected from his stock options after Computer Associates' $1.8 billion takeover of Legent, announced on May 25.

It has been a decade of career hopscotch for Stead, 52, known as a charismatic manager. He signed on with Honeywell after college and stayed for 21 years. Next, he spent less than five years as president and chairman of Square D before it was sold in a hostile takeover.

In 1991, he joined AT&T a
devoted four years to tu
ing around that company
telephone-switch business and NCR com
puter unit befo
quitting to he
Legent.

Now what
Stead says he received calls from 14 executive-search firms
the weekend after Legent's sale was announced. But he is deter
mined first to help guide
the merger with Comput
Associates. Then, a long vacation. Ultimately, Ste
wants to teach or at leas
set up a university program to boost his ideas
"values-based leadership.

By John Ver

THE 'EXIT FEE' FOR SALLIE MAE

THE GOVERNMENT-SPONSORED, shareholder-owned Student Loan Marketing Assn. is finding its push to privatize may exact a hefty price. GOP legislators worry that privatization, though a worthy goal, would end user fees Sallie Mae pays Washington, a hit to the budget. Senate Budget Com
tee Chairman Pete Dome
reply: an "exit fee" from S
Mae of up to $535 million.
fore that happens, Sallie
is apt to have its day in c
On May 26, a dissident g
that opposes privatiz
sued, charging the associ
with closing the polls ear
its annual meeting, costing
sidents millions of vote
their drive for board seats.
lie Mae countersued on
30: It says the group soli
votes in a misleading ma

ET CETERA . . .

- Chrysler recalled 18
Jeep and Eagle vehicles
emissions problems.
- Silicon Graphics
DreamWorks will invest
million in a joint ventur
- General Electric na
new heads at its elec
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- Morgan Stanley paid
ish officials a $384,000 fin
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Vashington Outlook

TED BY OWEN ULLMANN

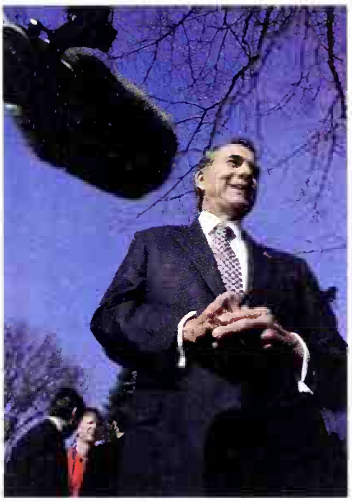
ELECOM REFORM: HE CALL MAY FINALLY GO THROUGH

here are long, winding roads. And then there's the tortuous, obstacle-strewn path toward reform of the nation's communications laws. Five times in 10 years, Congress tried—and failed—to modernize regulation of the rapidly ving business. Each effort sank amid industry squabbles partisan bickering.

ɔ imagine the surprise of regional Bell company execu- s when they visited Capitol Hill recently for a chat with ıte Majority Leader Bob Dole (R-Kan.). ꜝ didn't just promise to bring telecom re- ı to the floor the week of June 5, he con- ıtly predicted final passage of a bipartisan ɔromise. "The prevailing feeling was that is the year it's going to happen," recalls ꜝritech CEO Richard C. Notebaert.

PROMISE. Wishful thinking? Not really. ough a few boulders still block the way, yists and congressional leaders are now ng that telecom reform will finally pass. the consequences will be revolutionary he industry and users.

hile a final House-Senate deal still re- ıs to be crafted, the contours of a com- ıise are taking shape. Simply put, it will something for everyone and finesse is- that tanked past bills. For example, ca- ꜝeregulation—long a deal-breaker—would ɔhieved by removing rate regulation on ut basic service. As an offset against ɘs, the Federal Communications Commission would be al- d to clamp down if rates exceed a national average. ıble and long-distance companies would be freed up to ɔete for local phone business, while the Bells would be to offer long-distance service as soon as their local mo- lies are opened to competition. And every TV station d get extra airwave space to offer up to six new chan- —and for a fee could sell new services such as paging.



DOLE: *Speedy action?*

MARK PETERSON/SABA

Timing is crucial. The industry sees the summer as its last chance before the 1996 campaign subsumes serious legislating. That's why a coalition representing cable, broadcasting, cellular providers, and the Bells are calling for speedy Senate action. "It just shows the broad support for reform," says Beverly McKittrick of Citizens for a Sound Economy.

Reform advocates are convinced that once the bill clears the Senate, it's an easy walk. The House version that is expected to pass handily by July deregulates the industry more than the Senate bill, but differences, such as how much to relax ownership limits on TV stations, appear too small to block passage. House Speaker Newt Gingrich (R-Ga.) is an avid backer who believes reform will trigger major job gains. And he's ready to deal, says spokesman Tony Blankley.

But first, Dole's stewardship is vital. He is caught between GOP deregulators and Democrats demanding more consumer protections. Senator Bob Packwood (R-Ore.), for example, wants to water down the FCC's oversight powers, while liberal Senator Paul D. Wellstone (D-Minn.) is complicating matters by tacking on lobbying reform. Dole, who has delayed a final vote until a compromise surfaced, thinks he has the votes. And the Bells, who scuttled a 1994 bill, are solidly with him. "Dole is as anxious as we are," says Phillip Quigley, CEO of Pacific Telesis Group.

The last roadblock is the White House, which wants more FCC powers to halt rate gouging and covets a bigger role for the Justice Dept. in deciding when the Bells can enter long distance. But President Clinton is unlikely to stall the legislation, aides say. "He might be willing to swallow hard if it's close to what we want," admits one. And for pilgrims on the path to telecom reform, therein lies the highway to heaven.

By Mark Lewyn

CAPITAL WRAPUP

WT'S THEIR BUDGET MAN

ʼhich political leader gets the most dit from Corporate America for ing to achieve a balanced budget? ıse Speaker Newt Gingrich (R-), according to a May 19-23 survey ducted for BUSINESS WEEK by ıis Harris & Associates. Gingrich "excellent" or "pretty good" ꜝks from 65% of 408 senior executꜝs polled. Next came Senate Ma- ty Leader Bob Dole (R-Kan.) at ɔ, followed by Texas Senator Phil mm (38%), California Governor Pete Wilson (22%), and Texas billionaire Ross Perot (16%). Last of six politicians listed on the survey: President Clinton. Just 11% gave him positive grades, while 88% rated him as "only fair" or "poor."

The executives were also upbeat about the payoff of a balanced budget. Ninety-three percent believe the dollar would strengthen, 84% expect interest rates to fall, 81% predict the U.S. would be more competitive overseas and would attract additional foreign investment, 74% think their companies would be more prosperous, and 71% anticipate a rising savings rate. Still, the managers fret about potential downside effects of a balanced budget: Forty-nine percent said it could increase the risk of recession, 42% worried that steep spending cuts might ax many worthwhile programs, and 42% acknowledged that the cuts could have a disproportionate impact on the poor, elderly, and disadvantaged.

Would they support Medicare savings? By 4 to 1 the execs endorsed managed care, tax-deferred medical savings accounts, and higher out-of-pocket expenses for wealthy seniors.

SOUTH AFRICA

DOING WORSE BY DOING GOOD?

U.S. companies that pulled out over apartheid are behind

Simon Steward's Chase Manhattan Bank led many U.S. banks in deciding not to renew loans to South Africa in 1985. The resulting debt crisis helped push apartheid toward its demise, setting the stage for Nelson Mandela's election in April, 1994.

But that hasn't helped Chase reestablish itself in the new South Africa. One day recently, Steward met with a white senior member of the black-led government on the golf course. "Oh, you," said the politician. "You're the ones who pulled the trigger." The comment stung because, even though political power may have shifted to a black majority, "the government doesn't give us business," says Steward, the bank's regional director for southern Africa. The economy remains firmly controlled by white powers-that-still-are.

SEE NO EVIL. A virtual Who's Who of American companies and banks are setting up shop or expanding in South Africa these days. They're attracted by a $122 billion economy growing at a solid 3% rate, as well as by the country's relatively First World banking, telecommunications, and transport infrastructure.

But companies that heeded the anti-apartheid movement's call to divest aren't getting a leg up. It's not just white Afrikaner resentment. Even Mandela's African National Congress, which dominates the government, isn't rewarding those that helped it win power. Morgan Stanley & Co. representative Beth Nandel says companies find their sanctions-era boycotts are "a throwaway line" at best. "You can mention not being here when you see an ANC person in government," she says. "But from a practical business standpoint, you are behind."

The new government says it doesn't want to show favoritism because it is bent on shedding the past inclinations toward socialism and nationalization that made the white corporate sector so jittery. "We cannot turn the clock back," says Alan Hirsch, the Trade, Industry & Tourism Ministry's foreign-investment strategist. "There is no way we can now penalize those companies that defied sanctions. It would be dangerous for us to interfere."

So as ironic as it may be, the more fully a U.S. company pulled out, the more difficult a time it is likely to have coming back in. Some, such as McDonald's, Toys 'R' Us, and Victoria's Secret, lost the rights to their trademarks, which have been usurped by local competitors. In other cases, competitors from Europe and Asia took advantage of U.S. departures to entrench themselves in relationships in South Africa's insular corporate community.

Eastman Kodak Co., the market leader in most photographic products when it pulled out in 1987, is now just a "startup company," says Managing Director Jay C. Smith. AT&T South Africa President Franklin Coleman also describes his operation as a "startup," and so does Monwabisi Fandeso, president of PepsiCo Inc.'s new franchise.

STARTUP: *Pepsi found that Coke spent years locking in suppliers*

> Mandela's government says it can't favor the companies that helped it win power

In all, 209 U.S. companies sold or closed their South African operations, leaving 104 in the country at the nadir in 1991, according to Investor Responsibility Research Center in Washington. But since President Bush lifted the prohibitions on investment in 1991, the number of U.S. companies with direct links has risen to 208, says the IRRC.

As it reenters, Apple Computer Inc. is at a particular disadvantage with respect to IBM, which maintained a b ness presence. These days, the respo to Apple is not always warm beca the company is perceived as hav abandoned its customers. "We thin was the right thing, but there is question that it cost us market sha says Apple General Manager Cha Proudfoot. He says rivals and their compatible systems hav "virtual stranglehold" in personal-computer marke

The way IBM remaine South Africa without alie ing U.S. shareholders wa divest its subsidiary int entity called Information vices Group (ISG) in 1987 made IBM's full product available. Managing Dire Willie Scholtz says there an arm's-length relation because local executives were cut from IBM's cutting-edge technology.

But the connection allowed IB make a rapid and complete reentr paying $260 million to buy back a 5 share. With $414 million in busines South Africa in 1994, IBM already jumped to the head of the IRRC's li U.S. companies by sales. With s growing at a heady 20%, IBM has op a headquarters in suburban Johan

THOSE THAT STAYED CONNECTED, WIN...

COCA-COLA Maintained a presence through independent bottlers. Now has 75% of market.

IBM Repurchased a former unit, and sales now exceed $400 million a year.

INGERSOLL-RAND Defied shareholder pressure and is now expanding into neighboring African countries.

FORD Repurchased a 45% stake in former subsidiary, and plans new models.

...THOSE THAT DIDN'T PLAY CATCH-UP

PEPSI Facing difficulties getting bottling and distribution going.

APPLE Frozen out of most corporate sales because customers are now IBM-compatible.

AT&T Siemens and Alcatel locked up key customers.

McDONALD'S Fighting in court to reclaim its brand name.

DATA: BUSINESS WEEK

's poshest corporate neighborhood.
ke Apple, Pepsi is waging a market
gle against a bigger competitor that
tained a presence. Coca-Cola Co.
off local operations in 1986 but
d its concentrate plant to Swazi-
a tiny kingdom encircled by South
a. A master licensing agreement
to a South African company, Na-
l Beverage Services. When Coca-
took back control last year, it had
sive display coolers in almost every
r cafe and a 75% market share.
psi's strategy was to return to the
ry with a black-run South African
hise, New Age Beverages, backed
lamorous African-American inves-
including Whitney Houston, who
to Mandela at the White House.
nfortunately, hundreds of job-seek-
ned up outside its $15 million plant
hannesburg's outskirts demanding
. The unattractive spectacle, Fande-
ys, came from lack of understand-
hat Pepsi's investment, put at $100
n, would be spread over time. Pep-
o found out just how tightly tied
mpetitor was to what Fandeso
'cartelized" corporate South Africa.
's alliances made it hard for Pepsi
d bottles and cans, forcing Pepsi to
in containers and coolers from
o and Kenya.

en American giants such as AT&T
phill battles in trying to crack the
m-equipment market. The company will bid to provide 1 million phone lines to previously unserved or underserved regions. But competitors, including Germany's Siemens and France's Alcatel Alsthom, have longstanding relationships with South African buyers, some cemented by 15-year contracts.

DUG IN. In contrast, some American companies maintained a full presence in South Africa. Ingersoll-Rand Co., a maker of mining equipment, never altered its corporate structure despite 17 years of divestment initiatives. When the ANC government took over, Bill Mallory, Ingersoll's local CEO and president of the American Chamber of Commerce, wondered if the new government might create problems for his company. Far from it, judging from the success he has had with state-backed companies. "Our customer base has been extremely positive that we made the effort and sacrifice to stay and continue to support them," said Mallory. Now, Ingersoll-Rand is well situated to make the most of South Africa's new rapport with its African neighbors. Exports make up 35% of the unit's $48 million sales.

There are exceptions to the pattern of rewards for those who stayed vs. difficulties for those who left. One is Compaq Computer Corp., which was absent for several years but now says it is achieving "aggressive growth." And there is optimism that South African markets will open to U.S. products, particularly high-tech ones. "South Africans relate to American technology," says IBM's Scholtz. "Often, people travel to America and say: 'Why don't we have this?'"

American TV shows, filled with free advertising for U.S. brands, have been a window to the world for a country in isolation. And with South Africa "in a state where it needs all the foreign investment and job creation it can muster up," says AT&T's Coleman, "they cannot afford to offend any company."

So it is likely that American companies will make continued inroads. The U.S. already has reestablished itself as the country with the largest number of companies operating in South Africa, edging out the British and Germans. In trade, the U.S. regained its pre-sanctions position as South Africa's top trading partner in 1994, with two-way trade valued at $4.7 billion, just edging Germany's $4.67 billion, according to the South African Foreign Trade Office. Britain was third, and Japan was fourth.

But the way the Americans will compete won't be by talking about their anti-apartheid efforts. Reg Lascaris, whose advertising agency managed the ANC's 1994 election campaign, says "people are saying: 'Forget the past. Show us the future.'" That's precisely what more and more U.S. companies are trying to do.

By Drusilla Menaker
in Johannesburg

RATE RAGE: *Farmers and small businesspeople prote*

MEXICO

PULLING THE BANKS FROM THE RUBBLE

Will sell-offs and consolidations save Mexico's system?

On May 29, a quiet revolution occurred. Spain's Banco Bilbao Vizcaya agreed to pay $350 million to buy 70% of a troubled Mexico City bank, Mercantil Probursa. The Spanish institution will be the first foreign financial group to gain control of a Mexican bank. What's more, the Mexican government is swallowing $780 million in bad loans to make sure it doesn't have to pay even more to bail out Probursa later.

Probursa is one of many Mexican banks that have landed in hot water because of the country's economic crisis. Just four years after Mexico raised $13.5 billion by privatizing 18 state-run banks, at least half of them are back on the dole—big time. The government has already ponied up a total of $6.2 billion to shore up the banks and pay off dollar-denominated certificates of deposit. Now, it is introducing an $11 billion program to restructure the loans that can't be paid off at today's astronomical 60% rates.

Impressive as these sums sound, they may not be enough to fix the bad-loan problems. Moreover, the government knows that these are just Band-Aid measures designed to get the banks through the immediate crisis. It is now recognized that indiscriminate lending and failure to streamline operations have contributed almost as much to the banks' problems as the peso
sis. Finance Secretary Guille
Ortiz is determined to fix
banking mess by introducing
eign competition and pushing
banks to seek foreign partr
or consolidate. Says Ferna
Borja, the Finance Secretar
director of commercial bank
"We are going to see a com
restructuring of the banking
tem [this year]."

NOT ENOUGH MUSCLE. T
isn't much time. With the ec
my imploding and interest r
still sky-high, thousands of
clients have defaulted on co
rate loans, auto-financing d
and mortgages, leaving ba
with at least $10 billion in u
lectible loans—equivalent
more than 10% of their t
loan portfolios. And that percenta
expected to grow in the second ha
the year as bankruptcies and un
ployment multiply with the deepen
recession. The worry is that e
strong banks such as Banamex, M
co's largest, and Bancomer will ge
bogged down in dealing with their t
bled loans that they'll have few sp
resources to finance a recovery. "
banks won't have enough muscle to
tain the degree of fresh lending
need for recovery," warns econo
Rogelio Ramírez de la O, a consul
in Mexico City.

No wonder the government is loo
for all the help it can get. Bilbao
caya's takeover of Probursa may b
model for other mergers and acq
tions that the Mexican governme
encouraging. As part of the deal,
government's Fobaproa-
agency like the Federal
posit Insurance Cor-
agreed to buy a big ch
of Probursa's problem-
den loan portfolio.

Banking regulators
considering similar sche
to clean up the portf
of three banks—Banca
mi, Banco Unión, and I
país—that the govern
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year because of man
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It wants to sell then
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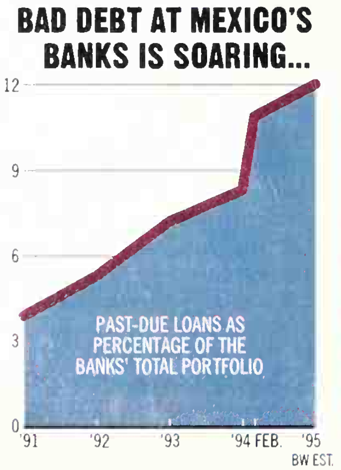
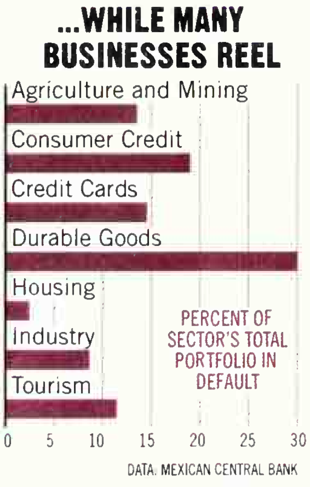
may take past-due l
from the banks' books
securitize them to be





DATA: MEXICAN CENTRAL BANK

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at a discount, possibly with the help of American investment banks. "The government is willing to enter into loss-sharing with buyers," says Javier Gavito Mohar, vice-president of the National Banking & Securities Commission.

The government seems willing to cut sweet deals to entice foreign buyers, which can now buy up to 100% of all but the three largest banks. Still, while some European and Canadian banks are reported to be checking out properties, most U. S. banks say they prefer to open their own subsidiaries to focus narrowly on corporate lending, private banking, and peso trading rather than retail banking and other activities. "They're living in a fantasyland if they think foreign banks are tripping over themselves to get into Mexico by buying Mexican banks," says John Donnelly, head of Chemical Banking Corp.'s Mexican subsidiary. Jittery Mexicans are flocking to the nine foreign subsidiaries that have already opened and are paying high premiums for scarce funds.

BACKLASH. The government believes that more competition will help rather than hurt Mexican banks—by forcing them to modernize quickly. Officials are also encouraging several Mexican banks to merge operations.

Stronger banks such as Banamex and Bancomer reported earnings better than expected in the first quarter, but they are still scrambling. Banamex, whose earnings dropped 35% from the previous year, cut 15% of its workforce in the first quarter. "The market took the [earnings] news well because it expected them to be much lower," says Banamex CEO Roberto Hernández. "But that doesn't mean they were good."

Even these banks are worried about a growing popular backlash against banks. Thousands of debtors have joined forces in a movement called Barzón, which demands relief from punishing interest rates. Barzón demonstrators—the organization claims it has a membership of 700,000 small-business owners and farmers—have staged countrywide protests that forced some of the banks to shut their doors.

Recognizing the big political risk that such problems pose, President Ernesto Zedillo Ponce de León's chief political minister, Esteban Moctezuma, recently ordered each of the 32 states to set up offices to help debtors negotiate debt relief. It seems likely that the Mexican government will have its hands full with the banking crisis for months to come.

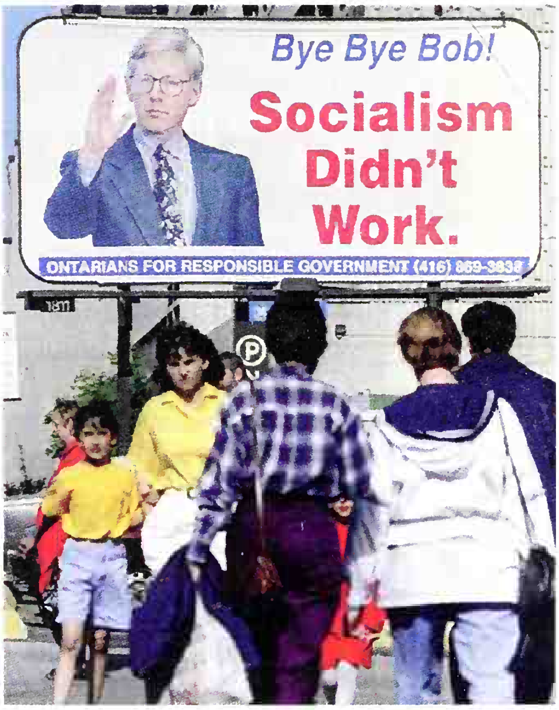
By Geri Smith in Mexico City, with Stanley Reed in New York

CANADA

SO MUCH FOR SOCIALISM

Voters are mad as hell at Ontario's leftist Premier

Canadian businessman Bill Ross is on a political crusade. The president of Form & Build Inc., a 30-person masonry-supply business in London, Ont., Ross is leading a group of 850 small-business owners determined to defeat Ontario Premier Robert Rae in June 8 provincial elections. "Everything Rae has done has been antibusiness," Ross argues.



BIG FLOP: *Joblessness, deficits, and taxes are up*

MIKE BLAKE / REUTE

In a province that accounts for more than half of Canada's trade with the U. S., Ontario's political debate is echoing the conservative revolution across the border. Voters have soured on Rae, whom they blame for lavish spending, high taxes, and a dismal job market. Since 1990, when Rae's New Democratic Party won with less than 40% of the vote, unemployment has risen to 8.7%, up from 5.3%. Huge deficits have doubled Ontario's debt load. With $72 billion in debt, "Ontario is the world's largest nonsovereign borrower," says Brian Neysmith, President of Canadian Bond Rating Service.

Rae's problems stem in part from a luck. As he took office in 1990, On was plunging into its worst reces of the postwar era. Manufacturers restructuring to compete in the ex ed market created by the 1989 trade agreement with the U. S. By some 300,000 jobs had been wiped

Business argues that Rae's pol have compounded these problems. I nearly five years in power, the we rolls have roughly doubled, to 1.3 mi Ontario's benefits are far more gene than those of other provinces. helped spending soar to $5 billion times higher than at the end of the fiscal year. To pay for it, Rae impose largest tax increases in Ontario his jacking the marginal income tax ra 53%, from 48%. Even so, Rae adde average of $730 million a month t province's debt load.

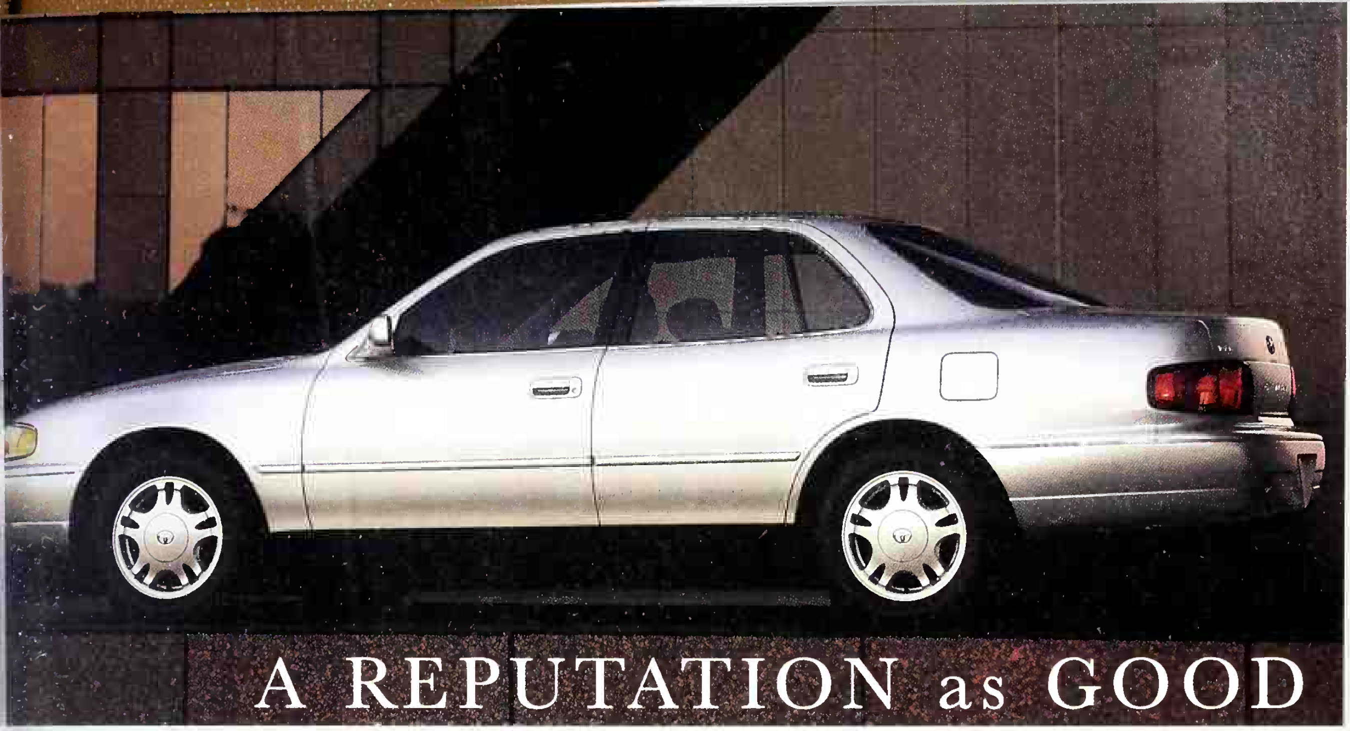
Business leaders are incensed by Rae's labor cies. One measure ma far easier for unions to nize companies, while ning the use of replace workers. Rae has still a ated many union lea Two of Canada's lar unions, angered by 1993 decision to cut gov ment workers' wages by won't endorse him.

HARD RIGHT. Rae argues wage cuts were necessa keep the deficit from s ing even further out of trol. He also warns that spending cuts advocate his opponents would "c a more punitive and m spirited society." That convincing many vo Rae's NDP could end up fewer than 10 seats in 130-seat Parliament, pre pollster Angus Reid.

The climate has he the Progressive Conservatives, le Mike Harris, a burly former golf Although the Liberal Party, under McLeod, a 53-year-old clinical psyc gist, also promises to balance the get, Harris is espousing a far more matic shift to the right. His plat includes a 30% income tax cut, a reduction in spending apart from h care, and a "workfare" program.

That might slow the growth of tario's debt. But whoever is elected face a daunting challenge. The v may get rid of Rae, but his legacy haunt Ontario for years to come.

By William C. Symonds in To



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COMMENTARY

By Brian Bremner

WHEN WILL JAPAN SET THE BANKS FREE?

Moody's Investors Service Inc. jangled a few nerves recently when it blasted the way that Japan's Ministry of Finance (MOF) is handling the nation's long-running banking crisis. At a meeting in the Ministry's six-story fortress, MOF officials lit into Moody's analysts, suggesting their methods aren't up to snuff. "Moody's should do more research," said a member of MOF's banking bureau.

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MR.E. SAKAKIBARA
DEPUTY DIRECTOR-GENERAL
OF INTERNATIONAL FINANCE BUREAU
国際金融局長
MR. T. KATO
DIRECTOR-GENERAL
OF INTERNATIONAL FINANCE BUREAU

FORTRESS

For years, the Finance Ministry has resisted the massive deregulation necessary to end the banking crisis

CAROLINE PARSONS

Moody's says it stands by its conclusions. But there's little wonder why MOF is edgy. Nearly six years after the bubble economy burst, the nation's top 21 banks still carry at least $550 billion in bad or restructured loans. Loan-loss provisions cover a third of this sum, figures James Capel Pacific Ltd. analyst J. Brian Waterhouse. Worse yet, the Nikkei stock average has fallen 60% from its 1989 peak—and at its current level of about 15,800 is still seen as overvalued. If that were not enough, plummeting property prices, deflation, and the high yen are pushing Japan into recession.

FLOTATION DEVICES? All of this comes as quite a blow to the elite University of Tokyo graduates who run MOF. For decades, these bureaucrats steered immense sums of domestic savings into Japan Inc.'s war chest. Now, they seem more preoccupied with keeping the financial sector above water. Doing so is rapidly draining the nation's wealth. But a lot more wealth may disappear unless the bureaucrats do what they have been unwilling to do so far—launch the massive deregulation and financial makeover necessary to bring the banking crisis to a decisive close.

To be sure, MOF will probably unveil a new bailout package in July. It's likely to include tax breaks on loan write-offs, government land purchases, and permission for banks to sell off bad loans in packages of securities. These measures are long overdue, yet they are also inadequate. The pity is that MOF can do much more.

A colossus, MOF lords over the U. S. equivalents of the Federal Reserve, the Treasury Dept., the Federal Deposit Insurance Corp., and the Office of the Comptroller of the Currency. It also controls Japan's tax system and the national budget. But it's not hard to understand why MOF is dragging its feet. Fully addressing the banking mess will unleash market forces upon Japan's heavily regulated financial sector—and mean "less influence for the Ministry," says Kenichi Takeshita, a director with Nomura Securities Co.

With deregulation sweeping other countries' markets, Japan's financial institutions are demanding more freedom. Brokerages want to sell more derivatives. Banks, which have already been allowed to begin limited trading and underwriting, are angling for even wider access to the securities business.

"DESCENT FROM HEAVEN." Deregulation would also spur consolidation. But fewer banks and brokers will mean fewer highly paid sinecures for retiring MOF officials, a practice known as *amakudari*, or "descent from heaven." Although major banks and brokers have stopped taking on MOF officials in recent years, smaller institutions—many of them merger candidates—continue hiring MOF hands.

Given MOF's ultraconservative spending habits and Japan's lifetime job security compact, it's understandable that bureaucrats are wary of a U. S.-style cleanup that relies on huge public funding and ruthless bank examiners willing to push weak players under. Yet it's difficult to believe that MOF can put off consolidation much longer.

Back in 1991, the Ministry predicted banks' balance sheets would be cleaned up by 1996. To help the banks along, it pushed up the stock market in 1992 and '93 with an estimated $200 billion in public money. Higher stock prices allowed banks to dip into their vast reserves of equities to raise cash. But the maneuver was no more than a stopgap remedy. The stock market is swooning once again. And business failures and bad debts are rising as the high yen and the cost of the Kobe earthquake sap economic strength. As a result, MOF now says the woeful financial sector will need at least five more years to right itself.

With Japanese growth at a standstill, the country can ill afford another five years of financial drag. MOF officials may have to loosen their grip before the entire economy—as well as what's left of their reputation—takes a thrashing.

Bremner covers Japanese financia markets from Tokyo.

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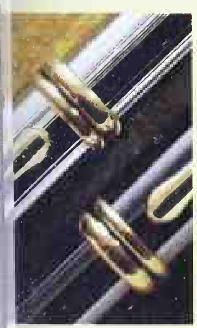

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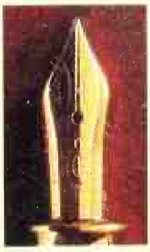

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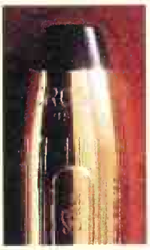

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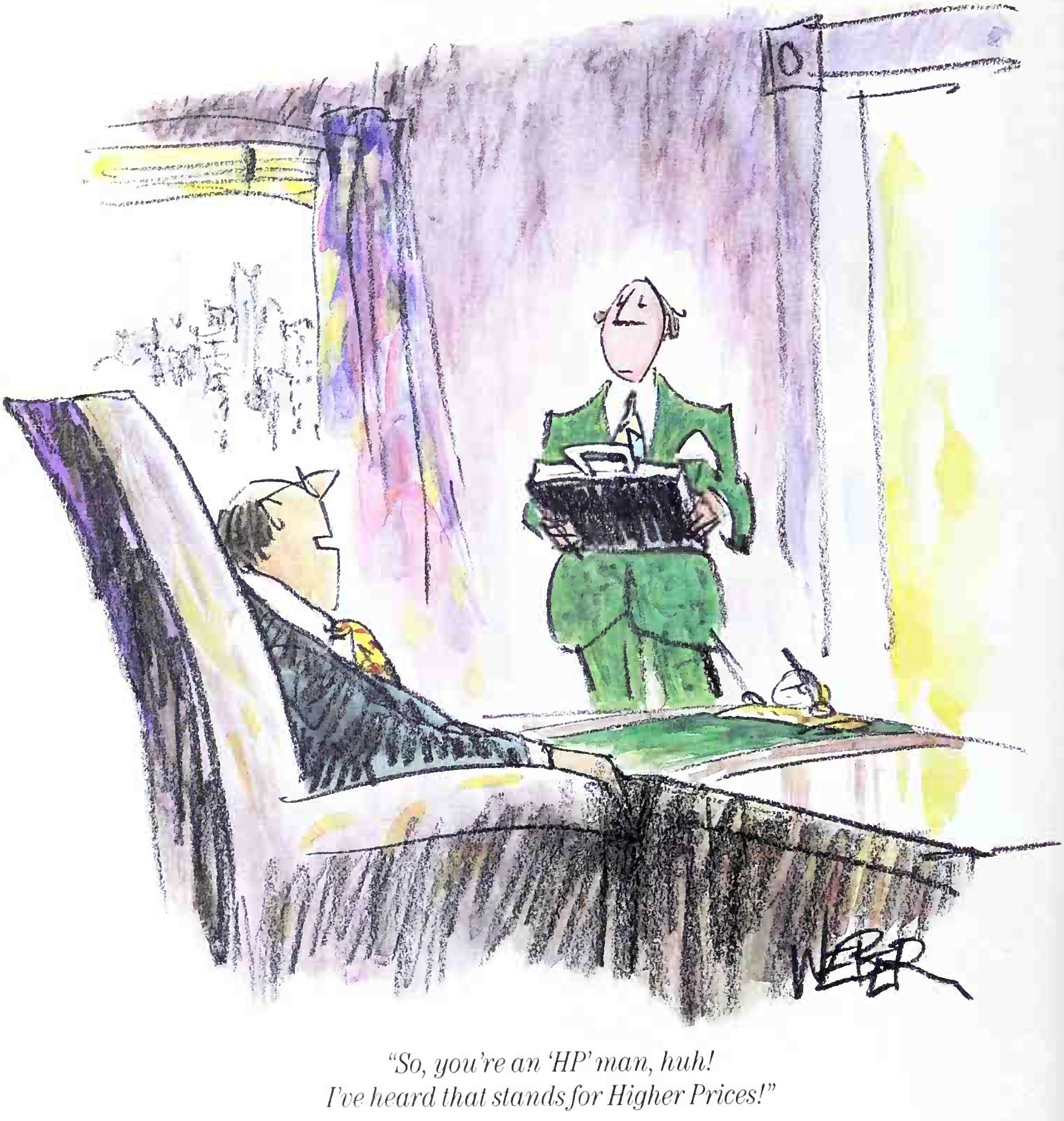

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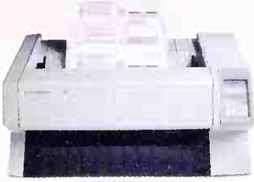

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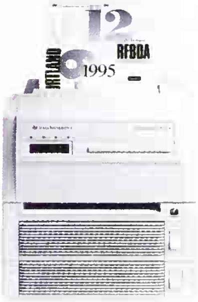

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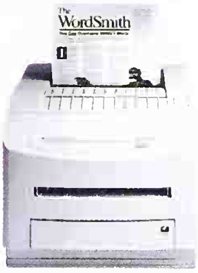

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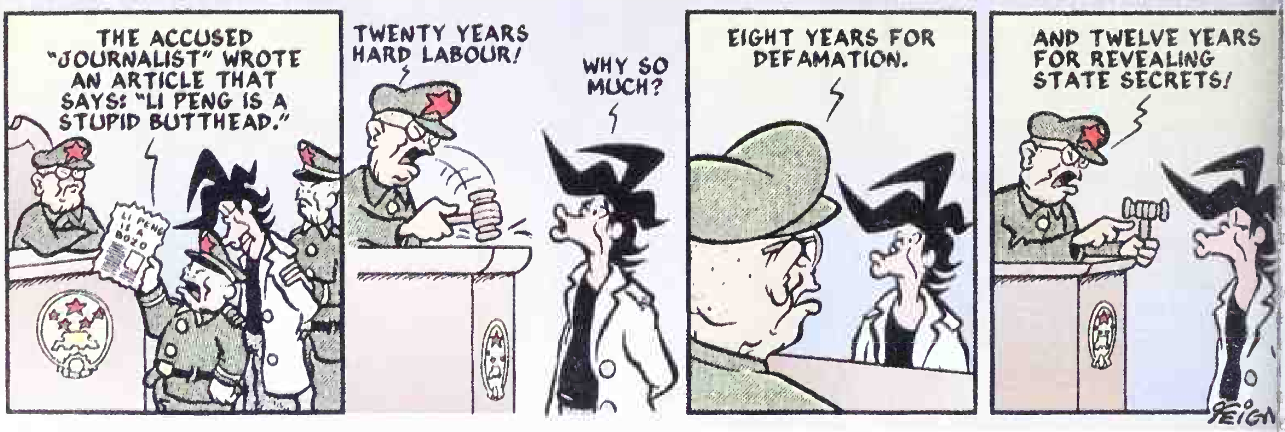
EDITED BY STANLEY REED

HONG KONG: BEIJING IS ALREADY MUFFLING THE MEDIA

For the past eight years, American cartoonist Larry Feign has enlivened the pages of Hong Kong's *South China Morning Post* with his hard-hitting comic strip *The World of Lily Wong*. Sparing no one, Feign took on both Beijing's autocrats and Hong Kong's ineffectual British governor, Christopher Francis Patten. But recently, Feign was sacked at the *Post*. Editor-in-chief David Armstrong denies that political pressure played a role and says the strip was the victim of a cost-cutting drive—though the paper is one of the world's most profitable. Whatever the reason, Feign's departure has heightened concerns about the fate of Hong Kong's press after the Chinese takeover in 1997.

If such fears are realized, Hong Kong could be a big loser. One of the reasons that so many international business executives have their offices in Hong Kong is to gain access to the flow of vital information on China. But that attraction could fade if Beijing shows little tolerance for negative press coverage. "If the rest of the world begins to perceive Hong Kong as just another Chinese city, then why do business in Hong Kong?" says one Hong Kong economist.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LI PENG IS A BOZO
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WHY SO MUCH?
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FEIGN

FEIGN'S *WORLD OF LILY WONG* COMIC STRIP WAS CANCELED

© 1995 LARRY FEIGN

The battle over freedom of the press and information flows that is looming in Hong Kong will probably be played out in one form or another throughout the region. As Asia modernizes, demand is building in the growing middle class for more accurate information and more accountable government. Wide-open access to information is also increasingly essential for business. But moves toward more liberty are threatening to authoritarian governments that worry about losing control.

STIFF CHINESE SENTENCES. Hong Kong seems to be backtracking on what is permissible in public discourse at an inopportune time. Although they still offer less freedom than Hong Kong, the city's rivals for investment and status show signs of opening up. Taiwan, for instance, is experiencing an explosion in independent media. It now has more than 200 cable-TV stations, more than 30 unofficial radio stations, and scores of nongovernment newspapers. Even restrictive Singapore is linking up to the Internet, adding cable-TV channels, and luring foreign broadcasters to set up regi communications hubs.

Of course, Hong Kong hasn't lost the regional media l yet. The Internet is flourishing there, and the colony has Chinese-language newspapers as well as three English-l guage dailies. Outspoken publisher and retailer Jimmy La critic of China's communist leaders, is about to launch *A Daily*, which promises to be a lively new addition.

But at the same time, Beijing is already sending warni by handing out stiff penalties to Hong Kong journal who have fallen into their clutches. For example, Xi Yan reporter for *Ming Pao*, an independent Hong Kong pa received a 12-year prison sentence in 1994 for reveal such supposed "state secrets" as interest-rate changes international gold transactions. Local journalists also Beijing officials contact key editors and publishers, either rectly or through third parties, when they are displea with a story. "My biggest fear is that even be 1997, China imposes its own standards on says Ivan Tong, *Ming Pao*'s deputy editor-in-c and chairman of the Hong Kong Journalists A

Local reporters shouldn't expect much support from H Kong's business tycoons, who have already come to te with China and don't want to upset its leaders. Many anal expressed concern when Malaysian-Chinese billionaire Rol Kuok, who has sizable stakes in China, bought the *Sc China Morning Post* from Rupert Murdoch. Armstrong, h ever, says Kuok doesn't participate in any way in editorial cisions. Last year, Murdoch, owner of Hong Kong-based S TV, removed the BBC, which has angered China with its p ing reports, from Star's northern broadcast range in an ef to expand his satellite-TV business in China.

But China hasn't squeezed the life out of the Hong K press yet. The *Eastern Express*, an English-language d founded in 1994, is interested in hiring Feign. The cart ist says he isn't sure if he wants to stay in Hong Kong. if he does, his strip will serve as a good barometer of p freedoms in these sensitive times.

By Joyce Barnathan in Hong K

APAN IS DIALING 800 BUYAMERICA

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It's not that easy for U.S. marketers to reach Yukio Arai. The 47-year-old Japanese farmer lives in a rural mountain village two hours outside Kyoto. But Arai, an avid mountain climber, has been shopping in America by mail
such catalogs as L.L. Bean, Pata-
., and REI for 20 years. "I don't
like America," he says. "But they
the best outdoor stuff."

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larity of things American, from
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or equipment, are
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N TERRITORY." While
barriers bedevil most
U.S. industries, di-
arketers have practi-
a straight shot into
—and little local com-
n. "We consider it
territory," says Wil-
. Dean, managing di-
of San Francisco
g consultant Bruce, Dean and Co. Direct-marketing experts say the industry in Japan is comparable to that in the U.S. 15 years ago. Direct-marketing sales in Japan reached only $18 billion last year, compared with $300 billion in the U.S. American catalogers generated $1.8 billion of those Japanese sales in 1994, up from $1.5 billion a year earlier.

New efforts by some big-name marketers such as L.L. Bean, Lands' End, and Eddie Bauer should accelerate that growth. With sales flattening in the U.S., a boost from Japan is particularly welcome. Lands' End, battered by higher postal and paper prices and sluggish U.S. sales, saw its first-quarter earnings fall 70%. Its 11% sales growth came almost entirely from Britain and Japan. U.S. merchants also like the different demand cycles in Japan. Back-to-school buying, for example, takes place in March.

Even while Japanese retail sales have tanked during the ongoing recession, direct sales are growing at a healthy 5% to 7% annual clip as strapped consumers look for bargains. Social factors, from more working women to an aging population are also fueling demand for mail-order merchandise. When the U.S. Commerce Dept.'s Osaka office offered 125 different catalogs for sale over the winter, Japanese consumers snapped up 300 a day at $2 and $3 each.

SOCCER SCORE. Bit by bit, savvy marketers are training their sights on this lucrative market. They're setting up toll-free 24-hour international phone and fax lines—a plus for customers who are up to 13 hours ahead of U.S. time—and engineering fast turnaround times. Some marketers, such as San Francisco-based accessory company California Gold, employ Japanese-speaking telemarketers in the States. Others, such as Bean, have set up Japanese offices to handle orders, returns, and complaints. Catalogs are changing, too. Many marketers have added Japanese-language inserts with sizing, tariff, and ordering information, while some, such as Lands' End, provide a complete Japanese-language catalog.

It's not just the big guys that are

A Yen For Japan

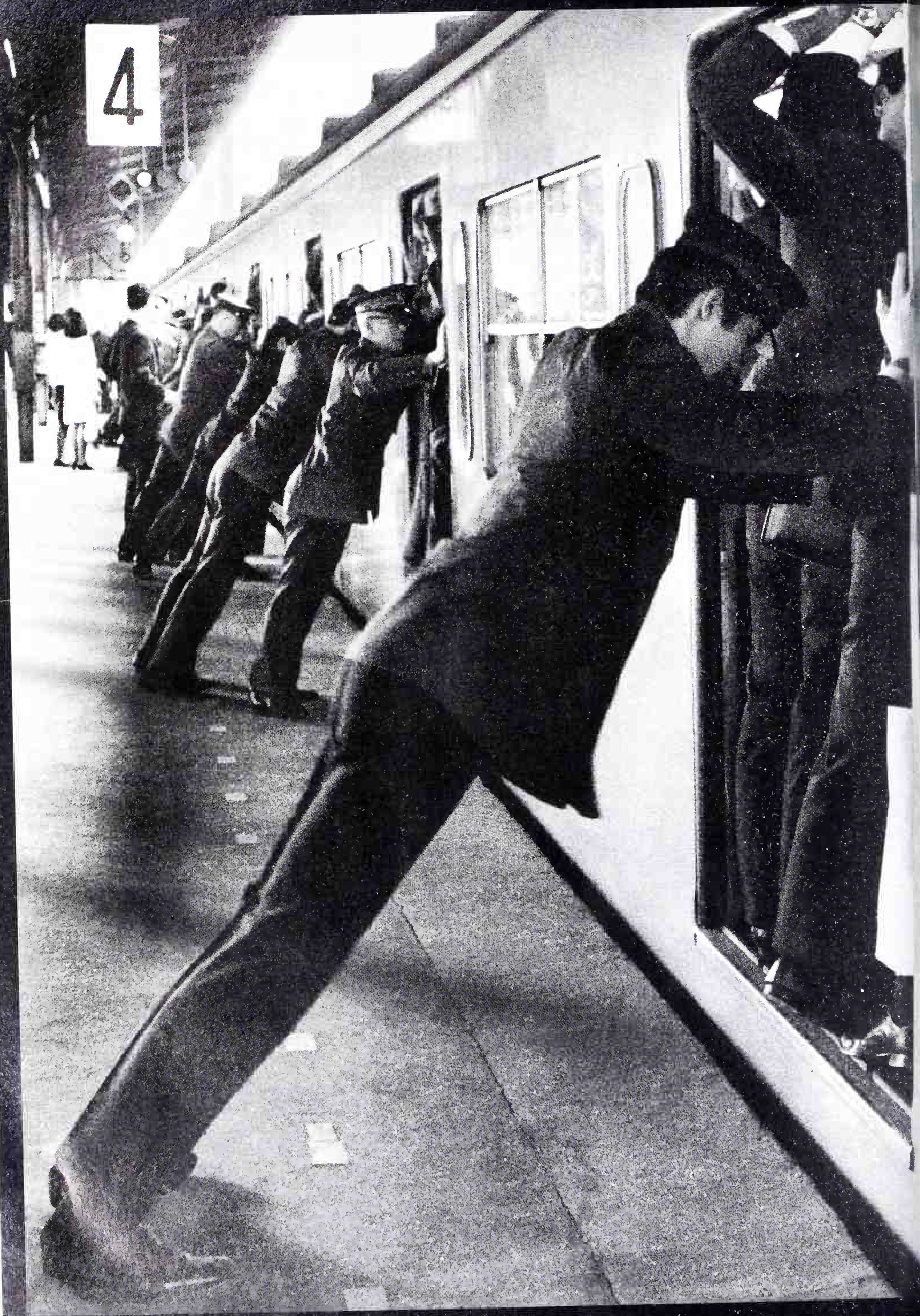
U.S. catalog companies prospecting for new markets in Japan

COMPANY	JAPANESE MARKETING STRATEGY
L.L. BEAN	Local stores and service center, English-language catalog with Japanese insert
LANDS' END	Local Service Center, Yen-denominated, Japanese-language catalog
EDDIE BAUER	Local stores, English-language catalog with Japanese insert
FRANKLIN MINT	Yen-denominated, Japanese-language catalog, local service center, print ads, direct mail brochures

WOOL POWER: *Avid mountain climber Arai orders gear such as his Patagonia jacket from America*

BOTTOM) PHOTOGRAPH BY TOM WAGNER/SABA

4



/HAT TO DO IF
OU'VE GOT ALL
HE INFORMATION
I THE WORLD.

Just when you thought you already had all the data your existing information system could possibly handle, another whole truckload comes along. It doesn't matter why it happens; it happens. You merge. You move to client/server. You decide to add a new application. You grow. Don't worry. Digital's new AlphaServer™ family is arriving right on time. Offering affordable, high-performance solutions to all kinds of companies. From airlines to financial services, architects to retailers. For example, our new AlphaServer 2100 5/250 system is well within most corporate budgets, yet has the power to perform up to 1200 transactions per second.[1] *And our new AlphaServer 8200 and 8400 systems are the only servers that run the new 64-bit fast Oracle7™ database, yielding performance gains that sound like they belong in another century: up to 100 times faster than conventional 32-bit enterprise systems. But then, that's what 64-bit Alpha power is all about. It lets you do things faster and more affordably than 32-bit systems, along with some things 32-bit systems won't let you do at all. Our servers run thousands of applications, including the ones you need the most. All offer the kind of scalability and investment protection that only 64-bit architecture can give you. And all are truly open solutions, so they'll work alongside virtually any of your existing equipment, while giving your entire information system a firm shove into the future. What more can we say except, hold on. For more information, call your Digital business partner or 1-800-DIGITAL. Or reach us via our Internet address: moreinfo@digital.com.*

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[1] Based on internal Digital testing.

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AAO

getting in on the action. Sports Endeavors, a $30 million North Carolina sports cataloger, started prospecting in Japan two years ago and sold $1.5 million worth of soccer equipment there in 1994. "Sales have exploded in the last year," says Alex L. Greene, director of international operations. He says comparable soccer equipment costs 80% to 200% more in Japan. And while Japanese companies take two weeks to deliver an order, he offers express shipping that can get the goods to a Japanese customer in 72 hours.

In fact, U. S. marketers can build in substantial margins and still beat Japanese competitors on price. Even without the 12% increase in the strength of the yen against the dollar since the beginning of the year, Japan's many-layered retail distribution system jacks up the cost in stores.

In addition, Japanese consumers ordering from American companies get a personal exemption on import tariffs of up to 10,000 yen ($115 at the moment) per order, though the average order runs 25,000 yen ($287). Foreign marketers also have an edge when it comes to mailing catalogs. Unbelievably, it costs less to mail across the sea than across Tokyo, though new international rates that take effect in January, 1996, will erase some of that advantage.

PLEASANT SURPRISES. The market's youth and peculiarities require some creativity. Few mailing lists are available. Most magazines are sold on the newsstand, so there are no subscription lists to buy. Companies that have developed their own lists guard them jealously. "In the U. S., companies will exchange and rent lists. In Japan, that's just not the case," says Donna Bhatia, vice-president for marketing at J. Crew Group's Clifford & Wills Inc. The lists that are available are expensive, poorly maintained, and not well-focused. Thus, response rates are a paltry 1%, compared with about 3% in the U. S.

There are pleasant surprises, though. "I'm constantly amazed at what does and doesn't sell here," says Robert Feeley, president of the Japanese subsidiary of Franklin Mint, the $800 million direct marketer of collectibles. "The biggest shock was that we can sell $2,000 pieces of jewelry through newspaper coupons." He says jewelry accounts for roughly 40% of direct marketing sales in Japan, compared with 5% to 8% in the U. S. As long as U. S. marketers keep offering their diamonds and outdoor gear at bargain prices, customers such as Yukio Arai will keep their orders coming.

By Edith Hill Updike in Tokyo, with Mary Kuntz in New York

People

HEALTH CARE

'ADAM SMITH TO THE ER'

How "pharmaco-economist" Paul Just cuts hospital cost

ALICE Q. HARGRAVE

JUST CAUSE: *"I tend to be something of a crusader"*

As a pharmacy student in the mid-1970s, Paul Just sat mesmerized one day as his professor unveiled a bulky computer. A similar one, the professor explained, was being used to predict President Nixon's response to drug therapy for blood clots in his leg. It could help physicians determine the right dose of the potentially lethal blood-thinner Warfarin. The application of computer technology to pharmacology was in its infancy, and Just was fascinated. "I wondered," he recalls, "what else pharmacists could do like that."

Earlier this year, Just stood before a conference of physicians and hospital administrators in Chicago and revealed the latest answer: a small, high-speed 920 Compaq loaded with software that can evaluate a drug's likely effect on a patient population and assess how the use of various drugs will affect a hospital's bottom line. Just, director of clinical pharmacy progr
for Premier He
Alliance, a coop
tive representing
U. S. hospitals, is
of a new breed
is applying "phar
co-economic" an
to institutional
cutting. This
geoning discip
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uct clinical resea
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sion. "I tend,"
says, "to be so
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But some ph
cians dismiss Ju
work as "cookb
medicine" and
that it threatens
tients' well-be
"We are the
who know patie
problems, aller
sensitivities to medications," compl
nephrologist Dr. Theodore Lewe
trustee of the American Medical A
"We can't think about the bottom
and still put our patients first." D
Sanford Schwartz, executive direct
the University of Pennsylva
Leonard Davis Institute of Health
nomics, says that Just's approac
"simplistic."

TAKING NOTICE. In these austere da
managed care, however, pharmaco-
nomics—previously used by manu
turers trying to demonstrate t
drugs' cost-effectiveness—is grab
the attention of hospital administra
and insurers. Just and his ilk are o
ing hospital bean-counters the evid
they need to influence doctors'
choices. "It's physicians' prescri
practices that drive a hospital's
budget," says Just.

Those expenditures are rising.

anaged-care networks negotiate dis- ts from pharmaceutical companies elp hold drug price inflation below the cost of drugs remains a bitter or hospitals. One reason: Insurers' to eliminate long hospital stays ns that patients who are admitted generally sicker and require more costlier drugs than ever. Pharmacy ets, which now constitute just un- 0% of hospitals' total budgets, are cted to rise to 25% over the next years. Costly new biotech prod- coming to market will help drive ncrease.

unt among Just's boosters Wil er, the director of pharmacy at ral DuPage Hospi- a 370-bed facility de Chicago. Early year, Bruner was to losing his job use of spiraling in the pharmacy, n spends $3.5 mil- a year on drugs. n administrators tened to turn man- ent over to outside cutting specialists, ught Just's help.

ter studying the lary and interview- taffers, Just sug- d some quick fix- applying two drugs lass instead of 10, stance, and switch- atients who could om intravenous to nedications. But his concern was that ling with doctors, harmacy was doing nuch pill-counting ot enough advising.

AT STAKE

If one drug is only 1% more effective than another, yet much more expensive, can its use nonetheless be justified when human lives hang in the balance?

CUT. Take Lovenox, a $25-a-dose thinner used mainly for orthopedic y. Just found that physicians were it for less-invasive treatments for they could choose a less potent Heparin, at only $1.50 a dose— os because blood levels of Hepar- st be more closely monitored. The al has since cut its use of Lovenox ore than 15%. Bruner says that changes will reduce the pharmacy's t by about $500,000 over two

ne of Just's recommendations are controversial. Central DuPage ians have rejected his advice that witch from the clotbusting drug plasminogen activator, or TPA, to a eaper alternative, streptokinase. sed to treat acute heart attacks, 2,500 per dose. A well-publicized trial showed that over 30 days, ery 100 patients treated, it saved one more life than streptokinase, which costs $300 per dose. In mid-April, the Food & Drug Administration ruled that drugmaker Genentech Inc. can promote TPA as "superior" if administered in a particular way.

A 1% difference, Just says, doesn't warrant "putting so much resources into TPA." The University of Pennsylvania's Schwartz disagrees. "One percent may not seem like a large number," he says, "but it's significant when you've saved a life." At issue is a basic shift managed care is making from concern for individuals to concern for groups.

Growing up in Pawtucket, R.I., Just once seemed set on a less contentious career as a drugstore pharmacist. He enjoyed the hours he spent at Bartley's Pharmacy, where he worked part-time. After finishing high school, he majored in pharmacy at Virginia Commonwealth University, then earned his doctorate at Philadelphia College of Pharmacy & Science. A board-certified pharmacotherapy specialist, he joined Premier in 1991 and launched its pharmacoeconomics effort in late 1993.

Throughout his schooling, he says, he was struck by how often doctors were swayed by zealous drug salespeople. "I wanted to become an expert in understanding to a minuscule component how drugs work and how to select proper therapy," he says, "so I could work side by side with physicians to do the best that could be done for patients in a cost-effective way."

Nonetheless, becoming the target of doctors' hostility hasn't fazed him. "Unfortunately, there will always be some physicians who don't want to listen to any alternative approaches," he says. "If given the chance, I usually can overcome some of their resistance." But not among the Theodore Lewers of the world. Lewers gripes that he recently prescribed a kidney medicine only to have his patient's health plan refuse to pay for it. "They forced me to change to one of two drugs on their formulary," Lewers says. "That's not right, and it's not in the best interest of my patient." Perhaps not. But as Paul Just can attest, doctors' orders don't pack the punch they used to.

By Ron Stodghill II in Chicago

This Sunday, Online

Business Week presents frequent live conferences on America Online. It's your opportunity to ask questions about features from the magazine.

BusinessWeek ONLINE

E-cash

Read this week's Cover Story and then discuss the future of money with E-cash pioneer David Chaum, whose technology is part of perhaps the biggest revolution in currency since the advent of gold. He will be online with the story's authors, Software Editor Amy Cortese and Money & Banking Editor Kelley Holland.

June 4, 9 p.m. EDT in the Globe

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AMERICA Online

THE FUTURE

Cover Story

In his pinstriped suit and wire-rimmed glasses, Timothy L. Jones looks every bit the traditional British banker. Sure enough, he has spent a dozen years at National Westminster Bank PLC. But ask Jones what he is doing now, and he responds with an intensity worthy of a Silicon Valley entrepreneur. Leaning across a table, he waxes eloquent about his new enterprise, Mondex, and the future of the product he's selling: a new kind of electronic money.

Mondex, which was launched by NatWest, is not alone: A raft of companies are developing their own forms of electronic money, known as E-cash. E-cash is money that moves along multiple channels largely outside the established network of banks, checks, and paper currency overseen by the Federal Reserve. These channels enable consumers and businesses to send money to each other more cheaply, conveniently, and quickly than through the banking system.

Some of the E-cash players are faceless, dubious outfits that exist in cyberspace and can be traced only to a post-office box—in the physical world. But there are plenty of others, ranging from techno-savvy startups with names such as DigiCash and CyberCash, to corporate icons including Microsoft, Xerox, and Visa. Citicorp is even developing what it calls the Electronic Monetary System, an entire infrastructure for using electronic money to be issued by Citi and other banks.

These companies are part of a mass experiment that could transform the way we think about money. In the process, it could change consumers' financial lives and shake the foundations of global financial systems and even governments.

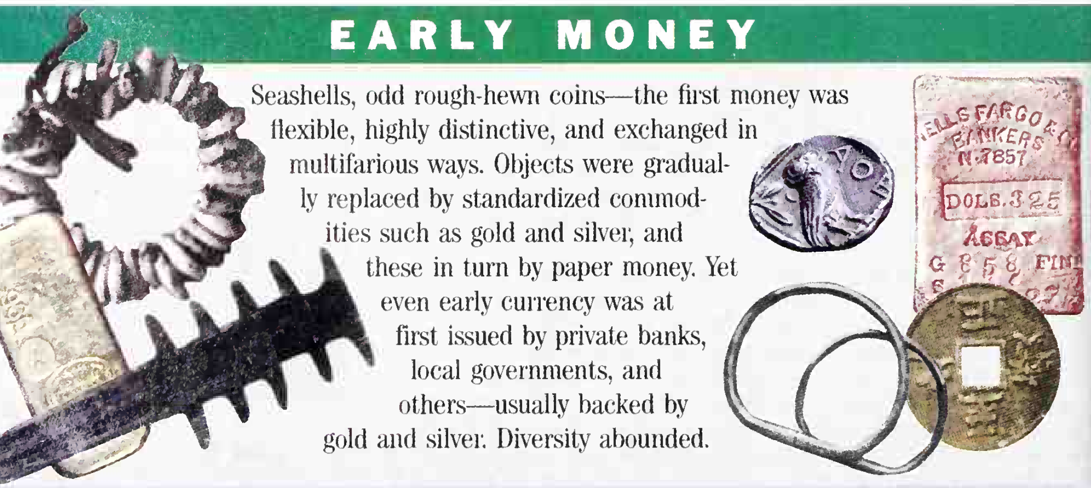
Digital money is the ultimate—and inevitable—medium of exchange for an increasingly wired world. With E-cash, you'll no longer need to carry a wad of bills in your pocket or fumble for exact change. Instead, you might carry a credit-card-size piece of plastic with an embedded microchip that you "load" up with E-money you buy with traditional currency you might store your digital coins and dollars—downlo over phone lines from your bank or other issuer of E-mon on your PC or in an electronic "wallet," a palm-size de used to store and transmit E-money.

This digital money will let you shop online, zapping m to a merchant over the Internet, or perhaps paying for a vie on demand over an interactive-TV network. It also has potential to replace cash and checks for everyday purchas in stores, restaurants, or taxis that accept E-cash. Busin es could also keep a stash of E-cash on hand for buying supplies, or use it to transact directly with each other ins of going through banks and electronic funds transfers.

THE START OF A REVOLUTION. In many ways, E-cash, w can be backed by any currency or other asset, represents biggest revolution in currency since gold replaced co shells. Its diversity and pluralism is perfectly suited to the archic culture of the Internet and the evolving web of works known as the Information Superhighway. "Electr commerce will literally change the way business is worldwide," says James G. Cosgrove, vice-president and eral manager for business multimedia services at AT&T. "V about to see another revolution similar to the Industrial olution." Adds Richard K. Crone, senior manager in the financial-services group at KPMG Peat Marwick: "We're in the beginning stages of the cash-replacement cycle."

But the advent of E-cash raises all sorts of questions, most of which remain unanswered: Who should be allowed to issue E-cash, and who will regulate those issuers? How will taxes be applied in cyberspace, which transcends physical boundaries? Who will set the standards? How do you ensure that payments made over the Net will be secure? How will consumers be protected?

EARLY MONEY



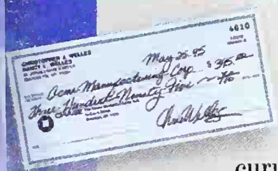
Seashells, odd rough-hewn coins—the first money was flexible, highly distinctive, and exchanged in multifarious ways. Objects were gradually replaced by standardized commodities such as gold and silver, and these in turn by paper money. Yet even early currency was at first issued by private banks, local governments, and others—usually backed by gold and silver. Diversity abounded.

F MONEY

E-cash could transform the world's financial life

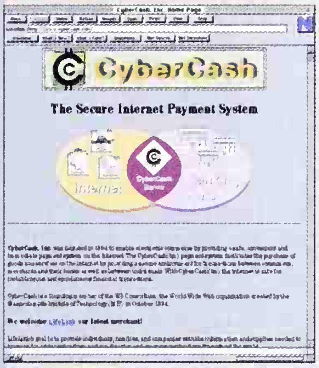
w will regulators police money laundering and counterfeit-
on private networks?
Vhile regulators wrestle with these questions, technology
emaking the monetary system. That's what Microsoft CEO
liam H. Gates III had in mind when he bid for personal-fi-
ce software maker Intuit Inc. He saw programs such as
iit's as the gateway that would draw millions of consumers
) his online network where they could pay bills, get finan-
advice, or shop, perhaps paying him for access. But the
tice Dept. worried about Microsoft's reach, and he aban-
ed the deal on May 20.
'ough break, but it will hardly slow Gates down. Microsoft
vorking with Visa on a system for securing credit-card
isactions over the Net. But that's just one piece of a
:h bigger problem Microsoft is trying to solve. Gates has
:ns of programmers busy devising a sweeping system, Mi-
oft Network, to help people do business safely in cyber-
:e—or more specifically, in Microsoft's own network and
ractive-TV systems—using a range of payment options. Mi-
oft won't reveal much about its E-cash plans, but, says
han P. Myhrvold, Microsoft's top advanced-technology
ert, "we're very interested in the area."
hey should be. The stakes are enormous. Seamus McMa-
a vice-president at Booz, Allen & Hamilton, sees as

BANK MONEY



The current money system is largely monolithic. Nearly all major countries have a single system of national currencies and bank checks. Most have elaborate infrastructures built around commercial banks and a central governing body such as the Federal Reserve Board. That entity is usually the only facility allowed to issue money. Perhaps because of their monopoly structures, money systems tend to resist change and innovation. Traders can move millions of dollars around the globe at the touch of a button. But the small check-based transactions of consumers can take days to clear. And chartered airplanes physically transport billions of checks around the country every workday.

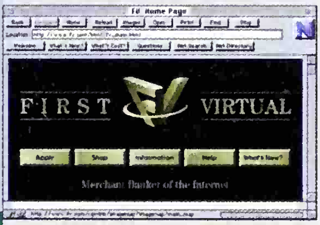
E-CASH



CyberCash, Inc. Home Page

CyberCash

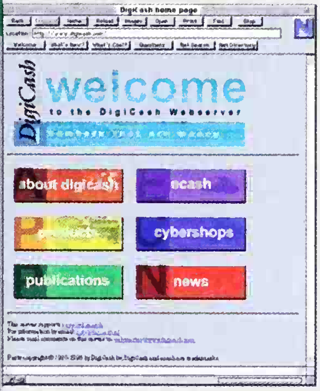
The Secure Internet Payment System



FV Home Page

FIRST VIRTUAL

Merchant Banker of the Internet

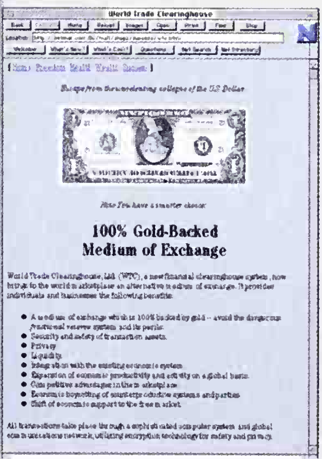


DigiCash home page

DigiCash

welcome

to the DigiCash Webserver



World Trade Clearinghouse

100% Gold-Backed
Medium of Exchange

E-cash may be technologically light-years ahead of early money. But in many ways, it is closer to seashells than greenbacks. E-cash is digital money that moves through a multiplicity of networks instead of the current bank system. It comes in lots of guises, is created by lots of individual parties, and is backed by anything constituents demand as an accepted medium of exchange: gold, dollars, yen, whatever. It is the ultimate, and inevitable, currency for the wired world. Competition is intense, producing rapid innovations. Using money downloaded to your PC or a palm-size electronic "wallet," you'll be able to zap money to merchants on the Net—or buy a newspaper faster than you can grab a greenback. If you're a business owner, you can bypass banks and move E-cash directly to customers and suppliers. The advantages: convenience, speed, cost savings. The technology is complex, but to the user, E-cash is as easy as pushing a button.

EARLY MONEY (CLOCKWISE FROM FAR LEFT) PHOTOGRAPHS BY FPG, GABE PALMER/PALMER/KANE/ INC/STOCK MARKET, TED MAHIEU/STOCK MARKET, FPG (2)
PAMELA DEWEY/NATIONAL MUSEUM OF THE AMERICAN INDIAN, FPG, FEDERAL RESERVE BUILDING PHOTOGRAPH BY JEFF SPIELMAN/IMAGE BANK

much as 20% of total household expenditures taking place on the I-way just 10 years from now. If any operation, whether Citicorp or a startup such as Mondex, gained control of a new medium for even part of those exchanges, it would have the opportunity to charge royalties or fees for its use and earn interest on the E-money sitting in its accounts. Even a tiny charge, when applied to millions of transactions, would be highly lucrative.

E-cash could also create a competitive free-for-all. Because the Internet knows no boundaries, a company offering E-money can gain direct access to millions of consumers and businesses—no matter what state or country they are in. "The retail banking market will collapse and give way to global competition," says Eric Hughes, president of Open Financial Networks, a Berkeley (Calif.) consulting firm. "Those [regional] separations don't work on the Internet."

WINNING CONSUMERS' TRUST. Governments' and central banks' control of money flows has already been loosened, as shown by recent currency and market crises in Mexico and elsewhere. But with the growth of E-cash, money could flow in and out of countries at lightning speed without being traced, weakening governments' ability to monitor and tax. "Over the long haul, this is going to lead to the separation of economy and state," declares Bill A. Frezza, president of Wireless Computing Associates and co-founder of the advocacy group DigitaLiberty.

The growth of E-money could also be bad news for banks. If other companies successfully offer their own brand of digital cash, they could bypass banks as primary providers of consumer financial services. The companies, not the banks, might be consumers' first contact when they wanted to obtain some digital money. "Banking is essential to the modern economy, but banks are not," says J. Richard Fredericks, senior managing director at Montgomery Securities.

This could be bad news for banks. What if phone companies offered their own brand of E-money?

Commercial banks are, of course, entrusted with the creation of money through the fractional reserve system. They lend out more than they have on deposit, and they are the only companies authorized o do so. If each unit of E-ca had to be backed by a cor sponding unit of traditional c rency, that would mean th lending out E-cash would t create new money. But if n bank money suppliers star backing just a fraction of th digital cash with traditio money—just as commer banks today keep on hand o a fraction of the deposits their books—nonbanks, wh are largely unregulated, co create money just as comm cial banks do now.

Bankers must move fast keep up. Ronald A. Bra head of electronic banking Chemical Bank, estimates t banks have less than five ye to come up with viable E-m ey products before other players carve out the biggest chu of the market for themselves. "No question, it's for real," s Richard M. Rosenberg, chairman and CEO of BankAmer Corp. In a couple of years, "it will take off fairly dramati ly." The issues now: winning consumers' trust and gett them to change their buying habits.

The first step in that direction could be to get consum used to using credit cards for purchases on the Internet. O that happens, the thinking goes, they may be willing to st using E-cash systems.

One of the first purveyors of a Net credit-card systen First Virtual Holdings, run by onetime celebrity manager l Stein. Stein has launched a relatively simple system using mail that lets consumers use credit cards on the Inter without fear that their account numbers will be misappro

The New World Of E-Cash

THE GOOD

- E-cash is more convenient and flexible than traditional money. It can be used by consumers and businesses, and for everything from buying wares on the Internet to lending a pal five bucks.
- Banks that issue E-cash could find it much cheaper than handling checks and the paper records that accompany traditional money.
- Consumers doing business on the Internet will find some forms of electronic money afford much greater privacy than using ordinary credit cards.

THE BAD

- Uncontrolled growth of E-cash systems could undermine bank- and government-controlled money systems, giving rise to a confusing and inefficient Babel of competing systems.
- E-cash may be less secure than bank money: Money stored on a PC could be lost forever if the system crashes.
- E-cash could foster a have and have-not society: Those with PCs would have ready access to the stuff, while those without, many of them low-income consumers, would not.

AND THE UGLY

- Money laundering and tax evasion could proliferate in stateless E-money systems as criminals use untraceable cyberdollars to hide assets offshore.
- Counterfeiters could create their own personal mints of E-cash that would be indistinguishable from real money.
- If computer hackers or other criminals were to break into E-cash systems, they could instantaneously filch the electronic wealth of thousands or even millions of innocent consumers.

DATA: BUSINESS WEEK

SKY IMAGES PROVIDED BY © 1994 PHOTODISC, INC. HAND BY JAN COBB/THE IMAGE BANK. IMAGING BY JAIME BEAUCHAMP/BW

. The card numbers are stored away on a
ected computer system and never pass over
network. Instead, consumers register with
Virtual by phone and receive I. D. numbers
xchange for their card numbers. When they
to buy something electronically, they simply
ly their I. D. number to the merchant.

rst Virtual, which became the first secure
nent system on the Net when it handled its
transaction last October, is growing fast.
n won't disclose activity levels, but he says
nes are increasing by 16% a week. "If you
e it simple and safe, people will use it," he
First Virtual has enlisted such merchants as
e Computer, Reuters, and National Public
o—which sells transcripts of programs.

ost electronic extensions of the credit-card
em, though, are built around encryption—
mbling card numbers so they can pass safely
ectronic networks. For example, CyberCash
a Reston (Va.) startup, is cutting its teeth on
al with Wells Fargo & Co. for encrypted
t-card transactions over the Internet.

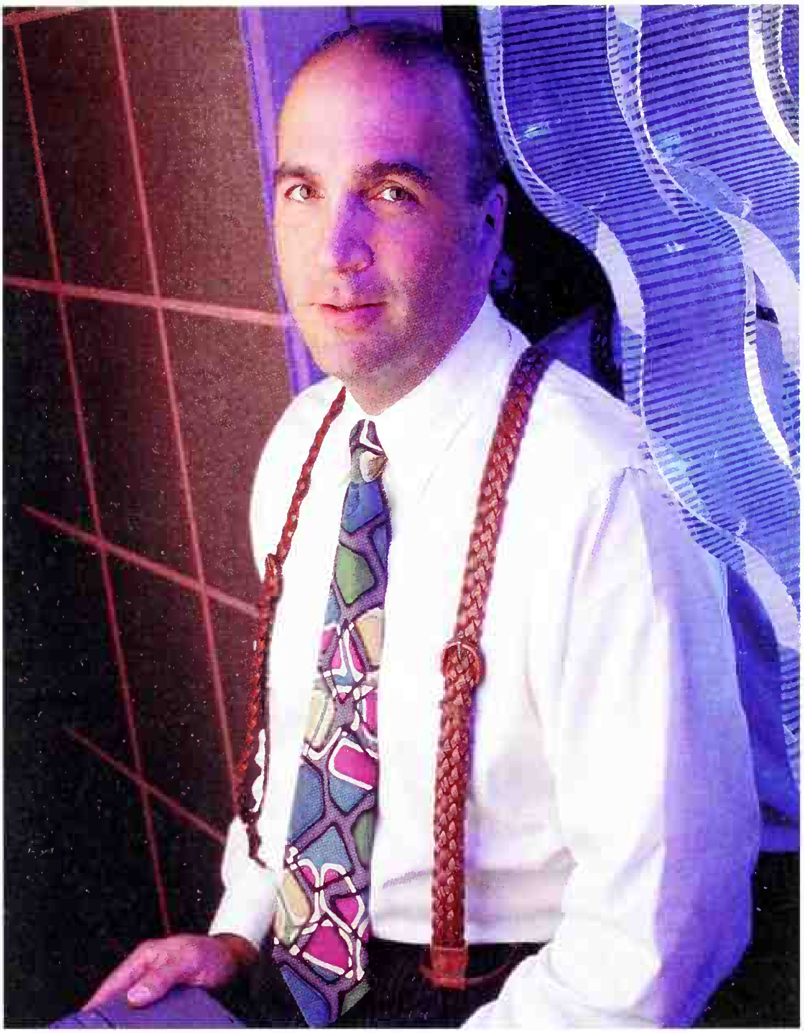
sa and MasterCard, not surprisingly, are
working to make credit cards usable on the
. Visa is, among other things, developing
Microsoft a system using encryption technol-
hat they hope will become an industry mod-
Ve want to be sure that the industry as a
e has certain standards," says Carl F. Pasca-
president and CEO of Visa USA. Meanwhile,
erCard has teamed with Netscape Inc., a
r of security and browsing software for the
net, to pursue a similar goal.

SHIRE EXPERIMENT. Credit-card-based sys-
have the advantage of seeming familiar
nsumers. But the card systems don't do
thing cash can: They're not anonymous,
do not work person-to-person, and they
credit limits. They're also not suited for the
roots economy the Internet makes pos-
where any outfit or individual can sell its
s, whether a newsletter or a stock tip.

at's where E-cash comes in. But E-cash
s to be just as secure as credit cards for
e to use it. David Chaum, CEO of pioneer
ash in Amsterdam, has done the most to solve this
em. He has devised a clever system that uses so-called
-key cryptography that, like encryption, makes it pos-
to send sensitive information over the Net. But Chaum's
eakthrough was "blinding" technology, which lets the is-
bank certify an electronic note without tracing whom it
ssued to. The result: Your E-cash, unlike an encrypted
-card transaction, is as anonymous as paper cash.

aum has yet to announce firm deals with companies to
his E-money. But in a pilot, some 5,000 consumers are
of a DigiCash marketplace, using the equivalent of $1
n in E-money to do business with 50 companies, from
lopaedia Britannica Inc. to Ricky's Junk Shop. Chaum's
ology is also at the heart of CAFE, a European Commis-
ponsored project to develop an electronic wallet for
uropean use.

E's setup is similar to Jones's Mondex system. "Imagine
e same as physical money, and you won't be far off," says
Mondex money will be created initially by NatWest
partner, Midland Bank PLC, which will then "sell" it to
ners. The E-money is loaded onto credit-card-size "smart"
with embedded microchips. The cards can be used in
of-sale terminals or fit into electronic wallets that can
transmit money to merchants or—just as with traditional cash but not with credit cards—to other consumers. Mondex money is still in pilot form, but the company has signed up 40,000 consumers and over 1,000 retailers in the Wiltshire town of Swindon to test Mondex money beginning in July.



CREDIT CARDS IN CYBERSPACE

"If you make it simple...people will use it"

— LEE STEIN, CEO, First Virtual Holdings

ROBERT BURROUGHS

CyberCash, too, is experimenting with E-cash in addition to its credit-card-based system. In the E-cash system, consumers will set up E-money accounts at their banks. Then, using proprietary software provided free of charge by CyberCash, they can go about their business on the Net. At the end of the day, CyberCash will clear all the E-money transactions and convert E-cash balances back to dollars.

No matter who develops the best E-cash, consumers and businesses alike stand to reap sizable benefits. No longer will consumers have to wait for change or scurry to automated teller machines for cash—out of sight, they hope, of the nearest mugger. E-cash will let businesses carry out transactions around the world without transferring bank funds—and they will be better able to reach a large population of technologically savvy, often affluent consumers.

Moreover, because E-money is basically software, it can be programmed to do things that paper money could never do. Microsoft's Myhrvold explains that electronic money could be earmarked for special purposes, with conditions on where it can be spent. For example, a business could have an electronic version of petty cash to be used for supplies at an Office Depot—but not a beer at the local tavern. Or parents could wire to a college student E-money that is designated for rent or books. "There will be new forms of smart money and payment systems that can only be done online," says Myhrvold.

Along with the opportunities, though, comes huge uncertainty. Existing monetary regulations don't cover all of the potential uses of E-cash. Nathaniel S. Borenstein, a computer scientist and co-founder of First Virtual, says: "One of the hardest questions merchants ask us is, 'When do we owe taxes?'" That's not a trivial question: With E-money, the merchant could be in Guam and the buyer in Canada, while First Virtual's computers are located in Ohio. So whose sales tax do you pay? Borenstein's advice to merchants: "I tell them to consult a lawyer."

There's also a major potential for crime (page 78). E-money can be easily sent in and out of a country undetected, facilitating money laundering on a grand scale. Tax evasion could become a matter of pushing a button. And without foolproof cryptography, counterfeiters could replicate the series of digits that constitutes E-money. Governments would be hard pressed to monitor or control stateless E-money. "Digital cash is a threat to every government on the planet that wants to manage its currency," says David E. Saxton, executive vice-president of Net1, a startup that has developed a secure way to send electronic checks across the Internet.

BATTLE OF THE LOGOS. Even law-abiding citizens and companies using E-money could be victims of sophisticated hacker attacks. Says Colin Crook, senior technology officer for Citicorp: "We have to assume electronic money will be the subject of sustained attack from all kinds of people."

Another open question—and a large one—is the role of banks in the new electronic world. "E-cash will be offered by both banks and nonbanks," says Chaum. Sure enough, DigiCash or CyberCash could join forces with AT&T or Microsoft just as easily as with Citibank. Having one of those companies dispensing E-cash directly to consumers could do serious damage to banks' main link with their customers.

Even if banks are involved, they could find other players taking center stage. Early entrants to the E-money business could set the operating standards for digital cash. And the nonbanks could even devise systems that would make their the first thing people see. William M. Randle, senior president at Huntington Bancshares, warns that banks become "buttons on a network operated by other entities

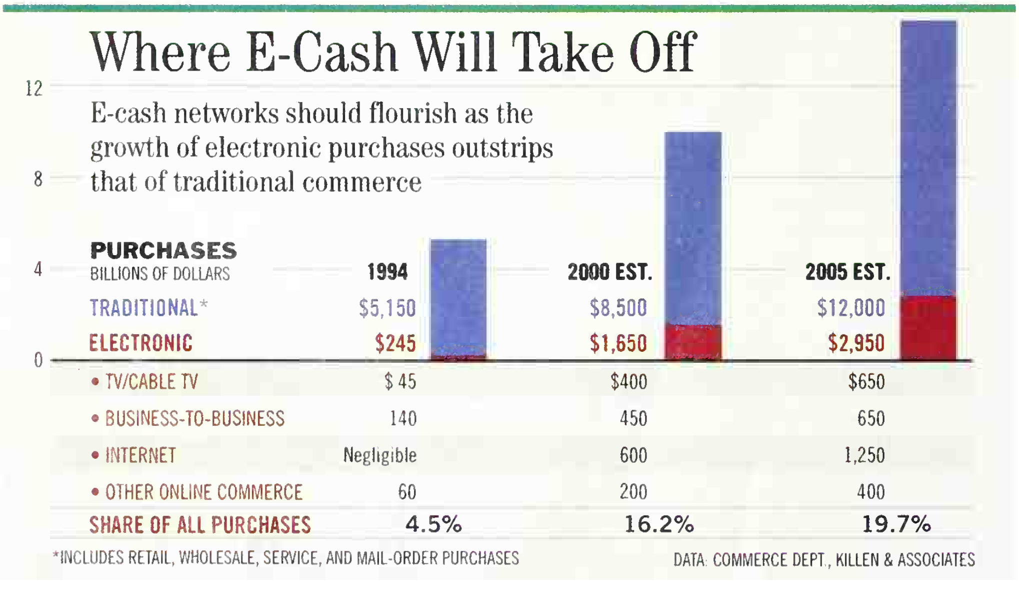
Improbable? Not really. Take a look at credit-card pro ing. Twenty years banks owned the transaction-processing ness. Now, close to 80 card transactions are cessed by nonbanks as First Data Resou Inc., says KPMG's Cror

A similar erosion occurred in whole banking, where b have ceded to such o as General Electric I mation Services and tronic Data Systems nearly the entire ma for transferring pay data to corporations, ing themselves the dane, low-margin se of transferring money tween corporations. T says banking consu

THE FLEXIBILITY OF CASH

"Imagine it's the same as physical money, and you won't be far off"

— TIMOTHY JONES, CEO, Mondex



Where E-Cash Will Take Off

E-cash networks should flourish as the growth of electronic purchases outstrips that of traditional commerce

PURCHASES BILLIONS OF DOLLARS	1994	2000 EST.	2005 EST.
TRADITIONAL*	$5,150	$8,500	$12,000
ELECTRONIC	$245	$1,650	$2,950
• TV/CABLE TV	$ 45	$400	$650
• BUSINESS-TO-BUSINESS	140	450	650
• INTERNET	Negligible	600	1,250
• OTHER ONLINE COMMERCE	60	200	400
SHARE OF ALL PURCHASES	4.5%	16.2%	19.7%

*INCLUDES RETAIL, WHOLESALE, SERVICE, AND MAIL-ORDER PURCHASES

DATA: COMMERCE DEPT., KILLEN & ASSOCIATES

PHOTOGRAPH BY KATHERINE LAMBERT, CHART BY ARTHUR EVES/BW

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GMC TRUCK SIERRA

Edward E. Furash, although the situation is improving, fewer than 100 banks offer full-service electronic data interchange, as the data part of payments transmission is known. "We should do more of that," says Richard Matteis, head of Chemical Banking Corp.'s Geoserve unit.

Banks have one key advantage: a near lock on consumers' trust when it comes to depositing money. For that reason, many bankers tend to dismiss the threat implicit in E-money. "The reason financial institutions are going to win in the long run is trust," says Kawika Daguio, the American Bankers Assn.'s federal representative on operations and banking. Indeed, many E-cash makers are choosing to partner with banks because of that consumer trust. "We've positioned ourselves to work with the banking industry and make sure that if there are heroes in this, it is the bank," says William N. Melton, CEO of CyberCash.

But Microsoft's bid for Intuit last fall gave bankers a collective scare. And even though the deal did not work out, banks worry that Microsoft could hook its 70 million Windows customers into the electronic-commerce networks at

CALL IT E-MONEY MANAGEMENT

It's a Saturday morning sometime in the not-too-distant future, and you sit down at your PC to do a little end-of-the-month planning. First, you call up the balances from your various accounts—credit-card, checking, savings, and E-cash—and break down your spending by category. Oops, better cut down on those pricey dinners.

Your investments are offsetting some of those expensive habits—at least you hope so. Finding out is as easy as a few clicks of a mouse button, as you call up your investment portfolio. Hmmm, it may be time to get into a more aggressive mutual fund. So you quickly dispatch a software "agent" to rustle up profiles for the top-performing funds. By filling out an online form, you transfer some of your holdings into a hot overseas fund.

Just as technology is revolutionizing money, it is also set to transform the way we manage our money. "Complexity has gotten beyond the level that people can deal with," says Scott D. Cook, the founder and chairman of Intuit Inc. With programs like Quicken, Intuit's best-selling personal-finance software, Cook aims to make that complexity easier to deal with.

"AUTOMATIC AGENTS." Indeed, today's programs for personal-finance management and home banking are giving consumers unprecedented control over their financial life. But this is just the beginning. Gradually, programs are linking users to banks, electronic bill-paying services, and a broad array of vendors of financial advice that is starting to be offered online. Colin Crook, head of technology at Citibank, says software programs will be constantly at work for you, for instance, using information gleaned on the Net to optimize your portfolio. "You're going to hand off your personal affairs in cyberspace to automatic agents who represent you," says Crook.

RICHARD MORGENSTEIN

A QUICKENING PACE

"Complexity has gotten beyond the level that people can deal with"

— SCOTT COOK, Chairman, Intuit Inc.

The competition to supply these services will be heated. Microsoft Corp.'s Bill Gates saw the potential—one reason why he was willing to shell out $2 billion for Intuit. With that deal blocked by the Justice Dept., Microsoft is throwing its considerable resources behind Microsoft Money, a home-grown personal-finance package already offered by Chase Manhattan and others. From Money, Microsoft expects to link customers to a variety of online financial services, including electronic bill-paying. Bank of America and NationsBank recently paid $35 million for Meca Software, which makes Managing Your Money. And Intuit, for its part, has just released new programs for selecting mutual funds and planning for retirement and chi dren's college education.

Expect banks to jump into the fray. They are sitting on a gold min of valuable data: their customers' payment information. The statemen they send out, though, typically offe little value, and consumers' credit-card, checking and savings, and investment accounts are handled separately. "There is an opportunity to consolidate that," says Richard K. Crone, a banking consultant at KPM Peat Marwick.

With so much available to help y manage your financial affairs, someday you may be able to bag those Saturday mornings at the computer and instead just take a long weeker

By Amy Cortese in New Yo

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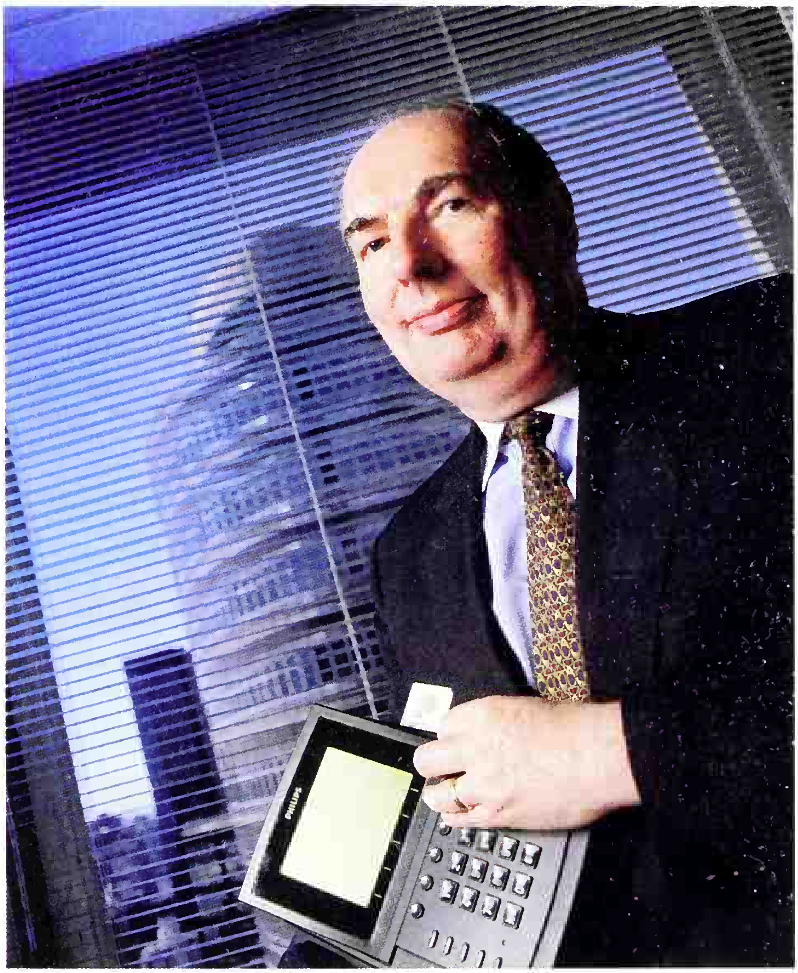
it is developing—with or without banks' help. If Microsoft becomes a utility, "it will take a lot of business from the banks," says Montgomery's Fredericks.

Now several of the biggest banks are pushing hard to develop E-money. Citibank's Electronic Monetary System is one of the most advanced bank offerings, although officials there stress that it is still in development. It would allow retail and business customers of Citi—or any other bank that paid to use Citi's system—to convert money in their accounts to electronic cash. Citi customers would also have access to a credit line they could draw down in E-money, just as they would use a credit card. Banks "should be experimenting," says Sholom Rosen, vice-president for electronic commerce at Citi. "That's what we're doing."

Beside NatWest and Midland, Bankers Trust Co. has a group dedicated to electronic commerce. And even some regional banks see opportunities. There is Wells Fargo's work with CyberCash. First Union Corp., based in Charlotte, N. C., has created an electronic mall for Internet transactions. Even Cardinal Bankshares Inc., a $607 million Lexington (Ky.) bank, on May 24 formed a new subsidiary, Security First Network Bank, which aims to grow into a full-service interactive bank on the Internet. "We'll be a one-branch bank in Kentucky with potential customers all over the U. S.," says CEO James S. Mahan III.

While it's not clear who the players will be 10 or even 5 years from now, it is inevitable that much E-money will originate outside the purview of central banks such as the Federal Reserve or the Bank of England, which are largely responsible for traditional monetary regulation. And that has major policy implications.

To begin with, consumers using the stuff could be extremely vulnerable. When consumers lose their credit cards, they are only liable for the first $50 of charges on the card. But for now at least, if a consumer misplaced, say, a Mondex card, it would be like losing cash. Similarly, if your digital coins are stored on the hard drive of your PC, a system crash could wipe out your electronic savings.



HIP TO HACKERS' HEISTS

"We have to assume electronic money will be the subject of sustained attack"

— COLIN CROOK, technology chief, Citicorp

STEVE SKOLL

Electronic money also creates vast opportunities for
evasion, money laundering, and other financial crime. "Ther
an imaginable potential for a serious challenge to the whole
litical and social order," says First Virtual's Borenstein. "I
not all that sanguine that the government has the con
they think they do." For people trying to avoid paying taxe
a national government, the lure of a stateless currency w
be powerful indeed. Already, "virtual currencies" serving e
tronic communities of people are springing up on the Inter

Then there's the issue of the volatility of money. The eff
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every dollar
spend using the credit-card-based systems would lea
trail. The problem will be balancing individuals' rights t
vacy with government's need to monitor money flow
trace criminal activity.

BREAKING INTO THE E-MINT. More dire is the possibility o
jor break-ins to E-money systems—the electronic equival
penetrating the U. S. Mint. If someone were to crack t
phisticated code of, say, the DigiCash system, he could
minting unlimited amounts of his own DigiCash money.

That's why it is all the more alarming that some re
tors and even some central bankers still seem unconc

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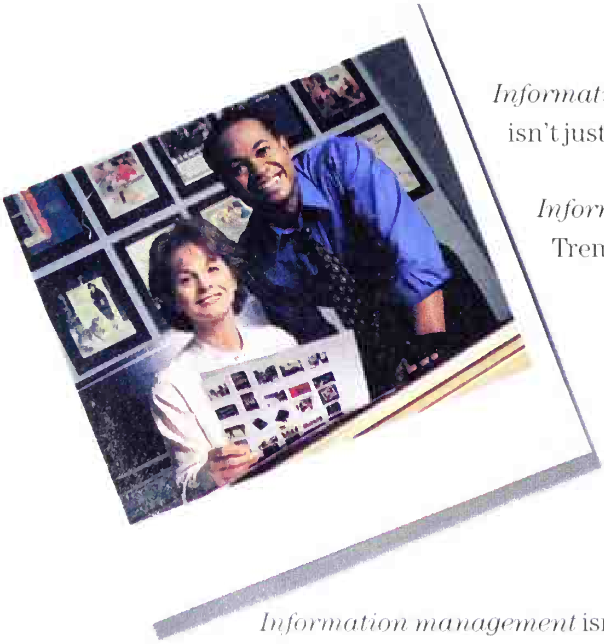
Information management also helps Tom Welch confirm that the big deal went through.

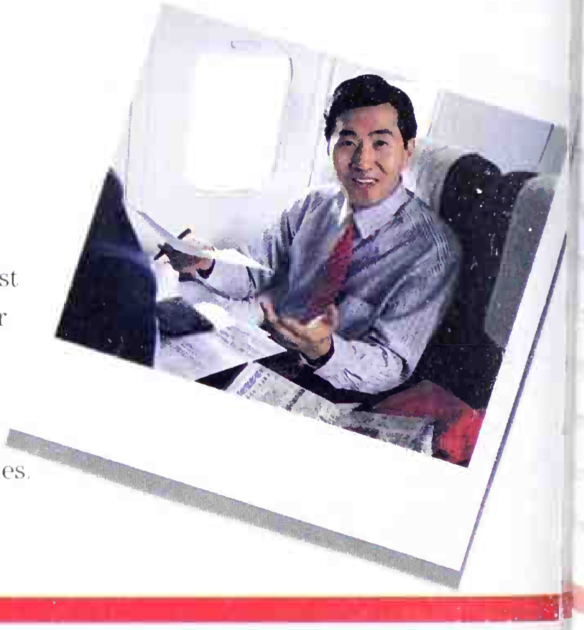
Information management isn't just processing over 10 million emergency phone calls a year.

Information management also makes sure Carol Boyd's daughter gets the medical treatment she needs.



Information management isn't just processing 10 billion checks a year.

Information management also confirms that the Tremba Design check cleared today.



Information management isn't just processing millions of reservations for 140 of the world's airlines.

Information management also tracks every leg of Richard Wong's trip—even across several airlines.

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with the advent of E-cash. After a breakfast speech to several hundred business leaders in San Francisco last March, Fed Vice-Chairman Alan Blinder was asked whether the Fed is studying the regulatory issues surrounding digital cash. His answer: "Digital what?" Then, after pausing a moment, he added: "It's literally at the thinking stage."

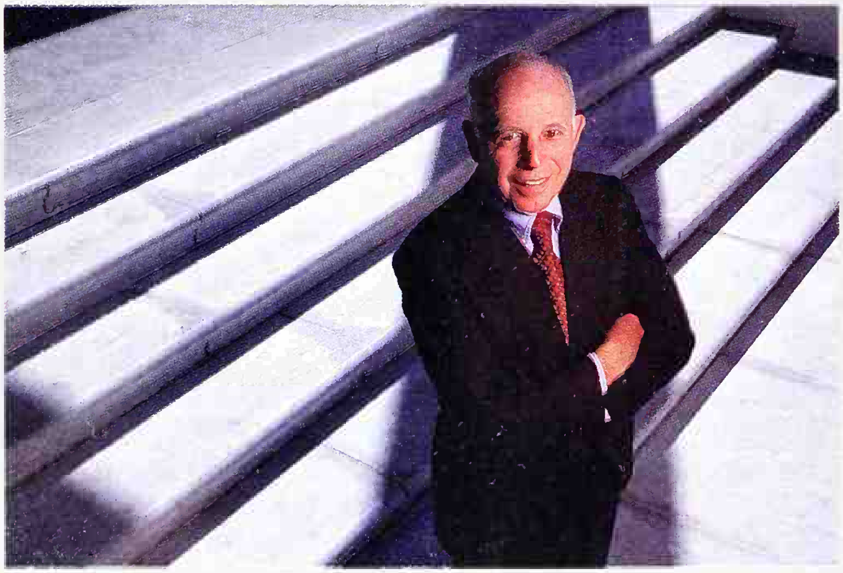
Slowly, though, some regulators are beginning to explore the concept of E-money so they can set policies. The Federal Reserve's payment-systems committee is meeting with Chau DigiCash and other E-money pioneers. State tax collectors looking at the issue of taxing electronic commerce. The Fi cial Crimes Enforcement Network is also weighing in. the White House technology office is taking a big inter

It's not a moment too soon. "There's no going back," DigitaLiberty's Frezza. "The genie's out of the bottle. Internet doesn't have an off switch." And no amount of ing by regulators will change that.

By Kelley Holland and Amy Cortese in New York, bureau reports

PATROLLING THE BLACK HOLES OF CYBERSPACE

At first glance, the offer sounded legitimate. First Bank of the Internet began advertising to Net browsers in March, offering a new way to pay for goods over the Net. By sending First Bank a check for at least $20, cybershoppers would get a Visa automated teller machine card "loaded" with their money—less a hefty 5% commission—which they could then use to obtain cash or pay for their cyberwares.



BARBARA RIES

TANGLES FOR THE TAX MAN

"If you go to a cashless society, it makes it very difficult tracking...reportable income"

— JOHN GIBBONS, President Clinton's top technology adviser

First Bank got numerous inquiries—but it also drew some unwanted scrutiny. State banking regulators warned that it couldn't call itself a bank. The Office of the Comptroller of the Currency sent an advisory to banks and regulators warning them about FBOI. First Bank CEO Vinn K. Beigh, a 34-year-old computer technician in Des Plaines, Ill., says he will soon pull his Net listing. But he is still looking for a way to cash in on the wave of electronic commerce. "There is quite an interest in buying on the Internet," he insists.

He's got that right. First Bank isn't the only upstart trying to cash in on the demand. Consider World Trade Clearinghouse Ltd., which offers a gold-backed cybercurrency with cashlike anonymity that offers "protection from bureaucratic snoops, nasty ex-spouses, and lawsuit-hungry lawyers." And officially opening this month is the Internet Online Offshore Casino, run out of the Turks and Caicos Islands, which says it w accept all manner of E-money and pay customers 10% annual interest on the balances they leave in an off shore bank the company recently bought.

These enterprises may never draw in a meaningful number of cu tomers. And many raise red flags t regulators. But the government is also a long way from getting a goo fix on the activities of the much larger number of ostensibly legitimate E-money players.

MONEY LAUNDERERS. The regulato gaps are sizable. For example, Sta ley E. Morris, director of the Trea ury Dept.'s Financial Crimes Enforcement Network (FinCEN), poin out that there are no laws that lin the balance of electronic currency that can be loaded onto an E-cash card. That could create a major op portunity for money launderers. A no one has determined how to defi whose tax laws apply to transactic in cyberspace (page 8). Says John Gibbons, assistant to the Presiden for science and technology: "If you go to a cashless society, it makes i very difficult tracking cash income or reportable income.

Right now, regulators are simpl trying to understand the new tech nology and how the market is evo ing. Last April, the Federal Trade Commission held a conference to e amine the impact of electronic con merce on consumer protection. FinCEN is organizing a colloquium on electronic currency to be held late this fall. "We are nowhere near th issue of regulating it," warns FinCEN's Morris. "We're one step back Given the speed with which the m ket is advancing, regulators don't have much time to close that gap.

By Amy Barrett in Washing

Old Tradition

Kozeny
Manager
New Thinking

CZECH REPUBLIC ['chek ri'pablik] • Premier Václav Klaus; ation of 10,5 million; stable government; parliamentary democracy; ced budget; GDP 2,5%; stable exchange rate 1 USD = 27,8 CZK; low on 10%; low unemployment 3,1%; high foreign currency reserves 3,4 billion; low foreign debt USD 9,1 billion; average monthly salary CZK; PSE market capitalization USD 12,4 billion; 80% economy in e hands; skilled and educated work-force; convertible currency; free iation of profits; tax treaties: U.S.A., Netherlands, Cyprus and others ory: from 5th to 6th century arrival of Czech tribes; from 9th to 10th ry establishment of the Czech state, 1355 Charles IV, Roman ror and King of Bohemia; 1348 Charles University of Prague founded; proclamation of Czechoslovakia; 1968 Prague Spring; 1969 procla- n of the Czech Republic; 1977 Charter 77; 1989 Velvet Revolution, ing of democratic changes in society; 1990 the Czech and Slovak ative Republic; 1990 establishment of HC&C, The Bill of Rights; first wave of privatization; 1993 dissolution of Czechoslovakia stablishment of the independent Czech Republic; 1994 signature tnership for Peace agreement; affiliated member of EU; comple- f second wave of privatization; municipal elections confirmed citizens strong support for market economy in November 1994.

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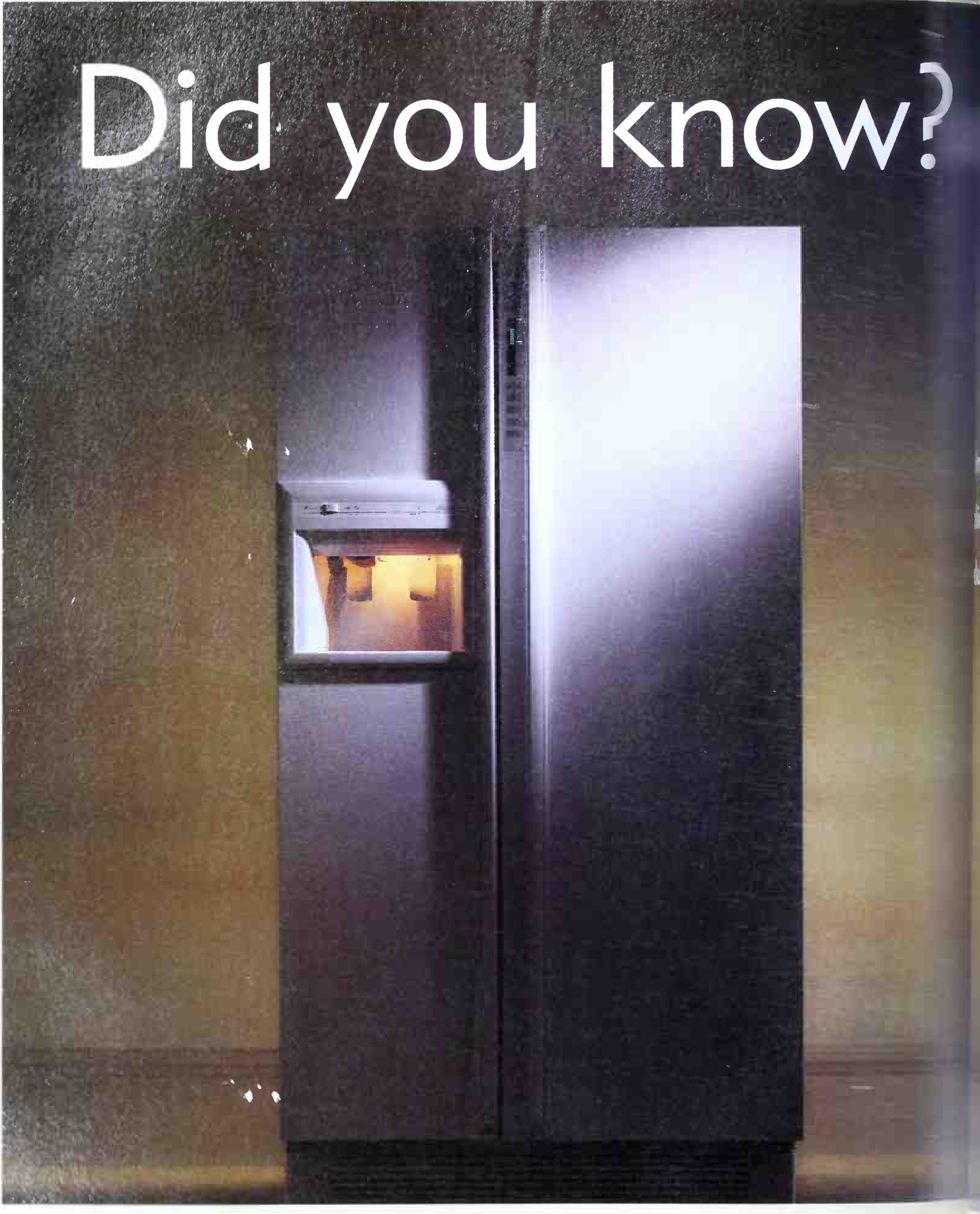

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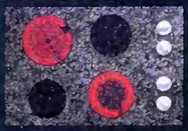

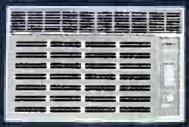

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EXPECT GREAT THINGS

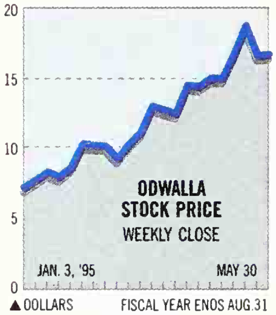
BY GENE G. MARCIAL

ALL JUICED UP AT ODWALLA

Ever heard of Odwalla? Few have. But this producer of all-natural fruit and vegetable juices has caught the eye of market watchers: The stock has more than doubled so far this year.

Odwalla (ODWA) was first featured in this column on Feb. 6, when investment manager F. Van Kasper picked it as a favorite for 1995. Its shares were then trading at a split-adjusted 7. On May 30, the stock closed at 16¾, after May 18's secondary offering of 1 million shares at 19 depressed the price somewhat. Kasper is convinced it will double yet again over the next 12 months. What's so hot about Odwalla?

TEMPTING TO A BIGGIE?



EARNINGS PER SHARE
1996 Est. 45¢
1995 Est. 25¢
1994 8¢
1993 -15¢
1992 2¢

FISCAL YEAR ENDS AUG. 31

DATA: BLOOMBERG FINANCIAL MARKETS, VAN KASPER & CO.

It has developed a niche in the cutthroat world of Coca-Cola, PepsiCo, and Dr. Pepper/Seven-Up. All Odwalla juices are fresh-squeezed and have no chemicals, sugar, or sweeteners. "This is one of the most compelling brand-building stories," says Jean-Michel Valette, an analyst at Hambrecht & Quist. Sales jumped from $9.5 million in 1992 to $18.1 million in 1994—although Odwalla still sells its products only in the West: the Pacific Coast from California up to British Columbia, plus Colorado. Valette foresees revenues of $34 million in 1995 and $49 million in 1996.

Since Odwalla's output is not pasteurized or treated with preservatives, shelf life is 4 to 15 days, depending on the kind of juice. "While this constraint presents challenges, it has also turned national beverage companies away from such products and provided Odwalla a healthy marketing advantage," notes Steve Lidberg of *The Red Chip Review*, a Portland (Ore.) newsletter focusing on small-cap stocks.

Odwalla appears richly priced—at 35 times Van Kasper's 1996 earnings estimate of 45¢ a share. But he expects earnings to grow at about 50% annually in the next few years. And there's yet another big kicker: Many pros don't expect Odwalla will escape for long the ravenous appetite of the biggies. A few years ago, Chiquita Brands expressed an interest in Odwalla, then still in its infancy. The juice maker didn't entertain any kind of combination then.

"Our intention is to grow nationally and become the authority and the last word on fresh fruit and vegetable juices," says founder and Co-chairman Greg Steltenpohl.

STILLWATER'S MINE RUNS DEEP

All that glitters is not gold. Platinum and palladium—metals used in industrial and other applications—have sparkled recently, making little-known Stillwater Mining (PGMS) a star almost overnight. The only major U. S. producer of platinum and palladium, Stillwater has climbed to 22¾ a share—a lofty 108 times estimated 1995 earnings—up from 13 last December, when the company went public.

"Stillwater will continue to outperform both its precious-metals peer group and the general market," predicts Vahid Fathi, a metals analyst at Kemper Securities. He sees the stock hitting 35 by the middle of next year.

A big surge in demand for platinum and palladium last year has driven prices of the metals to four-year highs. Prices could go even higher because both are necessary in auto catalytic converters. Palladium is also used in computer chips. And platinum is popular in jewelry.

Stillwater's mine in the Beartooth Mountains of Montana is the main source for both metals outside Russia and South Africa, notes Leanne Baker, an analyst at Salomon Brothers. For significant proven reserves, says Baker, "there's no other in the U. S."

With 18 million ounces of reserves, "we control the world's richest deposit of platinum-group metals," says Chairman and CEO Charles Engles. The company, which had earnings of 11¢ a share in 1994 on sales of $58.6 million, is expected by Baker to earn 21¢ this year. *By Sandra Dallas.*

PECKING AT BOSTON CHICKEN

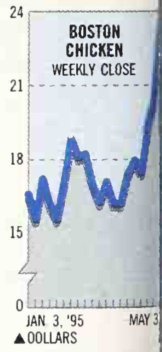
After last year's dismal performa
Boston Chicken (BOST) has tur
highflier. The shares fluttered to 3
on May 30, up from just 13½ in m
December. Part of the reason:
company reported big numbers, suc
a 170% net earnings jump, to $7 mi
or 15¢ a share, in the first quar
ended Apr. 16. And all eight anal
tracking the company have turned b
ish—three of them hoisting it t
"strong buy."

But not everybody is impress
Certainly not restaurant analyst Ro
Lipton of Lipton Financial Servi
an affiliate of Axiom Capital Mana
ment, who has shorted the stock.
beef: Boston Chicken's franchisees
actually losing money, based on
analysis of stores in operation a yea
more. Boston Chicken operates
franchises 640 stores in 30 states
specializes in rotisserie chicken.

Here's how Lipton sees it: He
ures that sales at a franchised st
must average $23,000 a week (ne
promotional discounts) for it to br
even. That covers labor, cost of go
and other expenses. Lipton conte
that, in fact, franchised stores av
aged weekly sales of $18,900.

That means, says Lipton, that
franchisees are not making money
fact, they're each losing an averag
$55,000 a year. "And as more sto
are opened, that loss grows stead
he says. Lipton's conclusion: "The q
ity of earnings is very low, since all of Boston Chicken's income comes from fees, royalties, and interest payments from franchisees, most of whom were financed by the franchisor."

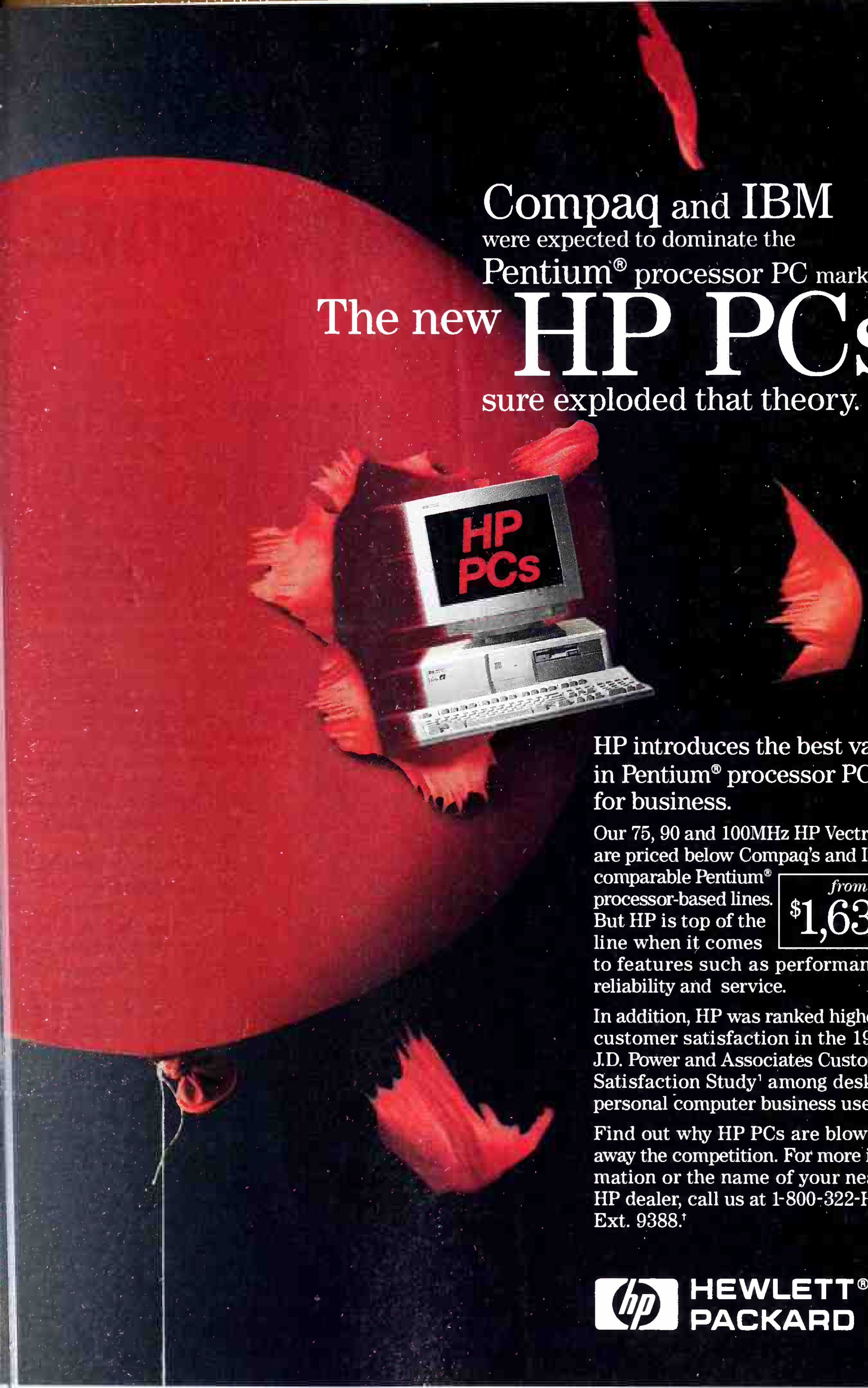
THIS FLUTTER M
MASK LOCAL LOS



DATA: BLOOMBERG FINANCIAL MAR

Boston Chicken spokesman Greg Gerdemann debunks all of Lipton's arguments. He maintains that breakeven for the
company's franchisees is only $12,00
week. Gerdemann insists stores av
aged $21,000 a week in the first qu
ter. "I don't know where Lipton g
his figures. We're doing great," he s

CHARTS BY ERIC HOFFMANN/BW



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TAX REFORM

TAX REFORM IS COMING, SURE. BUT WHAT KIND?

Radically different systems vie for public and congressional support

TIM GRAJEK

Two years ago, Richard K. A
a backbench Republican con
man from Texas, launched
fort to rewrite the U.S. Tax
He ordered his staff to run a revi
every deduction and credit and
set up mini-debates with aides ar
the pros and cons of each write-of
result of the exhaustive, yearlo
view: “We came up with the cu
tax system,” chuckles former aid
phen Moore, now director of fiscal
ies at the libertarian Cato Inst
“We justified every single deducti

The exercise convinced a frust
Armey that tinkering would ge
nowhere. Real reform would re
nothing less than replacing the
code with a single low-rate flat t
proposal first floated in 1981 by H
Institution economists Robert E.
and Alvin Rabushka.

Today, Armey is Majority Lea
the House, and his flat-tax crusade
a crest of voter fury at the curren
tem. A growing band of Republic
and even a few Democrats—wa
destroy the tax law as we know it
do not have to accept as a give
the income tax will always be wit
says House Ways & Means Com
Chairman Bill Archer (R-Tex.), wh
set tax reform hearings for June.

The campaign has struck such a
ulist chord that a massive restruct
of the tax laws seems inevitable. T
sue could become the economic c
piece of the 1996 Presidential ele
And if a Republican captures the
House, federal tax laws could un
their biggest rewrite in history. T
strategists, cutting the budget is
the first step toward downsizing
ernment; overhauling the tax co
next. Even if President Clinton
elected, the political momentum is
that the U.S. should see a major

“For the past 15 years, all we’ve
is tinker,” says Larry Langdon, tax
president at Hewlett-Packard Co.
need a fresh vision and a fresh s
Agrees Senate Finance Comm

America's Dueling Tax Plans

THE CURRENT INCOME TAX A top rate of 39.6%, riddled with loopholes, favors consumption and debt over savings and equity. Taxes dividends twice. Simple for most individuals but agonizingly complex for business and anyone who invests.

VALUE-ADDED TAX An integral part of the tax systems of most industrialized countries. Levied at each stage of production and built into the cost of goods. Simple in theory but in practice filled with multiple rates and exemptions. Credited to exports but imposed on imports.

FLAT TAX In its pure form, imposes tax at a single rate for business and individuals, with no deductions or credits. Removes the tax code from investment decisions, favors neither debt nor equity, capital nor labor. A big personal exemption improves progressivity for working families, but the wealthy get the biggest benefit. Top rate about 20%.

USA TAX A hybrid that favors investment over consumption. No tax is paid on savings and investment but is levied on spending. Much like a VAT, except tax is paid annually rather than on individual purchases. Personal tax works like an IRA. Top individual rate is 40%, but workers and employers get credit against payroll taxes.

rman Bob Packwood
re.): “The mood is
The public is wait-
or this.”
hile the anti-income
s agree on the prob-
they are deeply split
the solution. Each
to raise the same
nt of money as the
nt income tax sys-
but by very differ-
outes. Some, such as
y and Packwood, fa-
he flat tax. For indi-
ls, it would tax all
s and pensions at a
e flat rate but ex-
investment income.
ess, meanwhile,
pay tax on reve-
less the cost of la-
nd capital.
der the flat tax, as
as the hybrid “USA
designed by Senate
et Committee Chair-
ete V. Domenici (R-
) and Senator Sam Nunn (D-Ga.),
would file tax returns much as
o today. But the USA levy would
dividuals only on what they spend,
than on what they earn. All in-
ent income would be tax-deferred.
ess would deduct all capital costs,
t wages and salaries.
H CAMP. Other reformers, includ-
esidential candidate Senator Rich-
ugar (R-Ind.), back a national sales
evied only on retail purchases, it
operate much like state sales tax-
A fourth group, led by Represen-
Sam M. Gibbons
.) and Senator Er-
Hollings (D-S. C.),
a European-style
added tax, which
be imposed at each
of production, rather
ust at final sale.
front-runner for
P Presidential nom-
, Senate Majority
r Bob Dole of Kan-
nd his chief rival,
r Phil Gramm of
both favor rewrit-
tax code, but nei-
as endorsed a spe-
an. Dole and House
er Newt Gingrich
) have dispatched
emp, a GOP tax re-
talwart, to design a
hat the Republican
can promote in '96.
nwhile, some Demo-
are devising their
ss radical proposals

to repair—rather than replace—the current income tax. Senator Bill Bradley (D-N.J.), an architect of the 1986 Tax Reform Act, would like to close loopholes and lower the top rate to below 30% from the current 39.6%. And President Clinton, worried about having to defend the current system in his reelection campaign, is searching for an alternative that aides say would boost savings while preserving progressivity.

While Clinton talks repair, Republicans vow an overhaul. To economists, all the GOP variations are essentially consumption taxes. Unlike the current code, which taxes income, these proposed levies tax you on what you buy—not what you earn. With the sales tax and the VAT, the levy is collected at the time of purchase. With the flat tax and the USA tax, you simply deduct savings and investments from your tax base, so that you're taxed only on what you spend.

While these variations are trivial to macroeconomists, who believe that any consumption tax would spur savings and investment, the differences are vast for taxpayers—and politicians. Exporters would reap a big windfall under the USA and VAT taxes, since they'd get a credit for goods shipped overseas—a benefit not provided by the flat tax.

In contrast, under Armey's flat tax, wages are deductible for business while taxable to workers. But with the Nunn-Domenici tax, companies lose deductions for labor costs, while individuals are taxed only on the wages they spend. “The most interesting dividing line is between labor-intensive and capital-intensive businesses,” says Price Waterhouse Partner Peter Merrill. “Repealing the corporate income tax is not neutral across industries at all.”

LOSERS. Overall, the flat tax would provide a generous tax cut for many individuals, but it would be funded with a big tax hike for nonfinancial corporations (page 86). Companies hooked on debt—real estate developers, homebuilders, and some manufacturers—would lose their most lucrative write-offs under all of the consumption-based rewrites. And no one has yet figured how to tax financial companies, such as banks and insurance companies—a possible deal-buster.

Whatever their specific tax proposal, most reformers agree on two goals: Income should be taxed only once, and the current bias in favor of debt and consumption should be ended. Why? The U.S. national savings rate is among the lowest in the industrialized world. And

How They Stack Up

Depending on which tax-reform scheme U.S. lawmakers choose, individuals and businesses could receive radically disparate tax bills

THE IMPACT VARIES WIDELY AMONG COMPANIES...

TAX LIABILITY FOR A $1 MILLION...	CORP. INCOME TAX	ARMEY FLAT TAX		USA TAX	5%VAT
		19%	23%		
MANUFACTURER	$9,941	$13,899	$16,825	$19,514	$15,336
SERVICE COMPANY	8,142	12,387	14,995	15,056	21,913

...BUT INDIVIDUALS USUALLY PAY LESS

TAX LIABILITY	INCOME	CURRENT LAW	ARMEY FLAT TAX			USA TAX
			17%	19%	23%	
FAMILY OF FOUR	$75,000	$9,121	$6,155	$6,878	$8,326	$8,894
	150,000	28,415	13,296	14,860	17,988	30,704
	300,000*	77,220	42,262	47,233	57,177	77,205

*Excludes business or partnership income

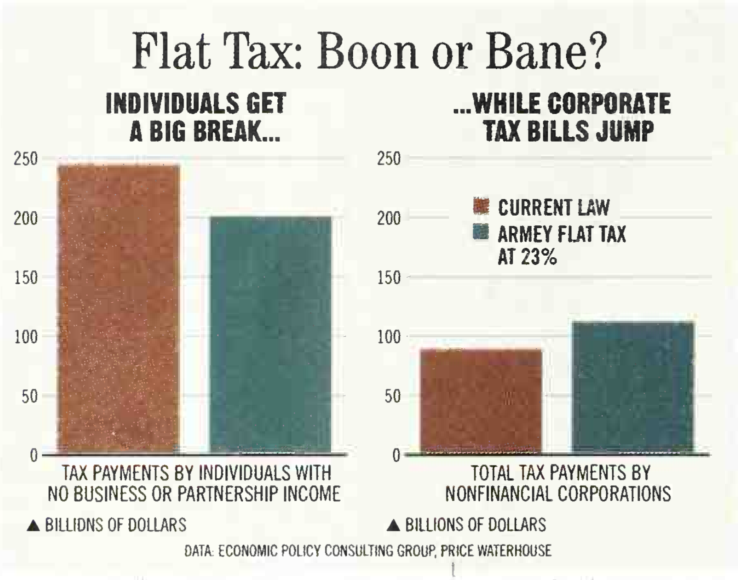
DATA: ECONOMIC POLICY CONSULTING GROUP, PRICE WATERHOUSE

The flat tax ditches cherished deductions for mortgage interest and charitable donations

economists believe stronger savings will translate into increased investment, which in turn is key to future growth.

There is little doubt such economic goals are important. But public support for tax reform is being driven by something quite different—a desire for simplicity and a widespread belief that many payers are shafted by the current system. "First of all, people hate the IRS," says Gingrich flatly. Adds Grover G. Norquist, president of the antitax Americans for Tax Reform: "It's a great idea to eliminate the IRS root and branch."

A new poll for Andersen Consulting reports that 59% of the American public believes it is too difficult to fill out federal tax forms. And even major corporations find the law mystifying. "Our existing system is so overwhelmingly complex that it's draining administrative resources on the taxpayer side and on the government side," says Lisa Norton, tax counsel at Ingersoll-Rand Co.



DATA: ECONOMIC POLICY CONSULTING GROUP, PRICE WATERHOUSE

BOON? Still, much as they hate the current code's complexities, business has learned to live with it—or even profit from it. So while reform may be an economic boon for the country as a whole, the transition could be agonizing for specific industries, such as real estate.

Is radical reform worth it? Many economists think so. Boston University economist Lawrence J. Kotlikoff figures replacing the current code with a savings-enhancing sales tax would boost the nation's stock of capital equipment by as much as 63%. That new investment would spur productivity. The payoff: Living standards would rise by up to 18%, he argues. Such predictions have been challenged by critics, and some reformers concede they can't guarantee major gains. "Will it really increase savings?" asks Domenici. "We have no way to prove that absolutely."

That's one reason the GOP plans differ so much, as each tries to strike the perfect balance between fairness and simplicity while maximizing U.S. economic growth. Just look at the Armey flat tax, tailor-made for a public that is fed up with often-incomprehensible rules and overpriced accountants. Unlike the current IRS maze, it's nothing if not simple—add up what you make, take a big standard deduction, multiply by the tax rate, pay the tax, and get on with your life. But there's a price: ditching some cherished tax breaks, including deductions for mortgage interest, state and local taxes, and charitable contributions. "I want to capture every penny of income in the tax base and subject it to taxation only one time," explains Armey. "The taxpayer would get an honest tax bill that's simple and direct."

For business, Armey's tax would be levied on cash flow. Companies would take total income, subtract capital and labor costs, and pay a tax on the difference. They could immediately write off all costs of producing goods, including capital investment and wages. But the cost of money—raised through debt or equity financing—would not be deductible. Manufacturers that buy lots of new equipment would benefit; companies that are heavily debt-financed would suffer.

Exactly what Armey's flat rate would be is hotly debated. He publicly sets it at 17% but concedes that won't raise the same revenue as current law. The Treasury Dept. figures the rate would have to be about 23% for the tax to be revenue-neutral, while flat-tax guru Hall estimates 19%.

Regardless of which number you use, corporations would take it on the chin.

According to an analysis by Price
terhouse—using 1991 return dat
the flat rate was 19%, nonfinancia
porations would pay one-third mo
overall taxes than under current
while individuals would pay about
third less. Income from sole propr
ships, partnerships, and the like—
taxed at the individual level—wou
reported on a separate business re

The Nunn-Domenici tax scores
for being fair and encouraging sav
For business, the plan is similar
flat tax, except that wages are n
ductible. This could hurt labor-inte
companies, but they get a big bre
return: a full credit
Social Security t
which now shrink the
tom line. U.S. man
turers, especially bi
porters, should like
USA Tax. They woul
an immediate write-o
capital investment.
goods sold overseas v
be exempt from U.S
es, while imports wou
taxed at the border,
ing them more costly

A BIG IRA. Nunn-Do
ci's individual tax e
tially creates one
IRA. People would
their total income fro
sources, subtract
they save and invest
pay tax on the differ
Reinvested dividends and capital g
money deposited in savings acco
and investments in stocks or m
funds would be deducted. So w
some mortgage payments, chari
contributions, and limited educ
costs. And individuals would get a
it for payroll taxes. The levy woul
semble a sales tax, but people v
pay annually or quarterly, rather
every time they made a purchase.
ners and losers can be summed up
ply, says Nunn: "Those who save
pay less taxes than those who spe

But the Nunn-Domenici tax is
means simple. And neither it no
flat tax would shutter the despise
That's why some pols would dum
income tax system entirely and re
it with a sales tax. No more form
more withholding. No more scram
for 1099s. And no more IRS.

DAVID BURNETT/CONTACT

SOUNDS SIMPLE

> “I want to capture every penny of income in the tax base and subject it to taxation only one time. The taxpayer would get a bill that's simple and direct”
>
> — RICHARD ARMEY

her, who dismisses even Armey's x as too timid, vows to “tear the e tax out by its roots.” He wants eal the 16th amendment, which ished the federal income tax 82 ago, adopt some type of national ax, and scrap the tax agency. He ints that he would eventually re- the Social Security and Medicare l taxes with a sales levy. Archer's jectives: “Get the IRS out of our lual lives” and exempt exports ax.

ar, there are two sales tax ver- gaining currency—a retail levy European-style VAT, which would at about 5%. It is paid at every of production and is usually hid- the final price of a product. In , though, VATS have become quite x and riddled with exceptions.

national sales tax would be im- only on the retail purchaser. It e collected by the states, thus ting nearly all of the federal tax- on apparatus. It would also be stratively simple—unless it be- empting food, medicine, and oth- ntial purchases. Backers envision of around 20% on all goods and s, even though such a hefty price uld generate substantial sticker among consumers. Archer says ce jump would be offset by a ise in take-home pay, since there e no income tax. But to libertar- o support a sales tax, the shock its great virtue. “I want people the government every time they the 7-Eleven to buy a grape ,” says Cato's Moore.

of people, however, would curse s tax for another reason: It's inherently unfair to the poor, who consume a much larger share of their income than the rich. In fact, the various consumption tax schemes are distinguished by how they attempt to achieve fairness.

The flat tax addresses the problem with two rates: zero on roughly the first $36,000 a family of four earns, and about 20% on everything above that. Such a scheme is great for those at the top and bottom of the income ladder, but Treasury figures that families earning between $20,000 and $50,000 would actually face a big decline in aftertax income—about 4.5% under a 17% rate.

BIGGEST HURDLE. Nunn and Domenici would maintain progressivity with multiple tax rates and with their payroll tax credit. But they also pay a price: a top rate of 40%—twice that of a flat tax—and more complexity. Backers of a retail sales tax are mulling creative ways to provide everyone with about a $5,000 credit—such as sending a check to every American with a Social Security number.

Solving the fairness problem, however, pales compared to the challenge of managing an orderly transition to an entirely new tax code. “One of the biggest hurdles is how you get from here to there,” says Charles W. Rau, who heads the tax department at MCI Communications Corp. One example: Many financially struggling companies, such as LTV Corp., have stayed afloat by relying on old net operating losses, which they can carry over from year to year. Those losses would disappear in a consumption tax, and troubled companies won't easily give them up.

Likewise, there's the shock to the housing industry. This year, residential housing is being subsidized to the tune of $90 billion. Eliminate the deductions for mortgage interest and state and local property taxes, and the real estate market could plunge into turmoil.

The National Association of Realtors is already gearing up to do battle. It's begun forming alliances with commercial developers, farmers, and other business groups that rely heavily on debt financing. Another possible ally: state and local governments, which would lose their tax advantage for municipal bonds in a world where all investment income is treated alike.

The prospect of fierce resistance from such powerful would-be losers convinces some veterans of past tax battles that the current income tax will never die. Bradley, for one, thinks the eventual outcome of the tax debate of the '90s will be a rerun of the '86 overhaul—“lower rates and fewer loopholes.” But, in truth, it's too soon to predict a firm outcome. “Where we end up won't look anything like the original ideas,” says HP's Langdon.

Certainly, the drumbeat for tax reform keeps getting louder. At the very least, the next Presidential election will set the stage for another dramatic reform of the current income tax code. And if the GOP takes the White House in 1996, the next stage in the Republican revolution may be a new federal revenue system. The result: By the turn of the century, the U. S. could well become the world's first industrialized nation that won't have an income tax to kick around anymore.

By Howard Gleckman
in Washington

DISPUTE RESOLUTION

THE EXPLOSION IN PRIVATE JUSTICE

Demand for civil arbitration fuels the rise of an industry

RAUL COLON

After 11 years of legal battles and an estimated $100 million in costs, a small group of investors suing over a failed 1982 merger between what was then Gulf Oil Corp. and Cities Service Co. decided to end their litigation nightmare. The parties turned to arbitration. They hired a retired appellate court judge, rented a large room, agreed to take just three weeks for the case, and forfeited any right to appeal the judge's decision. "This could have dragged on forever," says the investors' lawyer, Thomas H. Moreland, whose clients won $90 million. "From our perspective, common sense finally prevailed."

Not so long ago, such a solution would have seemed radical. But after years of academic study, pilot projects, and judicial debate, alternative dispute resolution (ADR) has come into its own. Individuals and corporations, sick of overcrowded courts and soaring legal costs, are fueling what is fast becoming one of the most successful experiments in privatization. Now Congress is going further with a proposal to make ADR a voluntary substitute for litigation as part of its drive for tort reform. "This is now mainstream," says William K. Slate, president and CEO of the largest ADR provider, American Arbitration Assn. (AAA).

RAPID GROWTH. A whole new industry is emerging to meet the explosive demand for private justice. Judicial Arbitration Mediation Services/Endispute, the largest for-profit private justice provider, is so confident of future demand that it's contemplating a public offering to fuel expansion, says CEO John Unroe. The Orange (Calif.) company, with $43 million in 1994 revenues, has been growing at a 20% rate. And JAMS, with 350 adjudicators in 28 cities, plans to go global this fall with the opening of an outpost in London.

On the nonprofit side, the New York-based AAA manages annually a ci caseload one-fourth the size of th ci il cases filed with the federal cou sy tem. In 1994, AAA boasted reven s around $100 million and handled a 60,000 cases, involving claims v ue at $5 billion. The Center for Publ sources, a coalition of large comp and law firms, is currently man more than 100 disputes over som billion. Says Frank E. A. Sande rector of Harvard Law School's D pute Resolution Program: "ADR ha come so appealing because the ju system has failed so people."

With private justice's found prominence, how critics fear that indiv rights and fairness ma sacrificed to achieve gr efficiency. Arbitrations mediations generally abridged versions of t with truncated disc rights and briefer pres tions of evidence. And judges are not required low established case law. determines the settleme ue of a case, which nee be equated with the me says Kenneth R. Fein who is negotiating for Corning Corp. in the ma breast-implant litigation.

TIMELY BOOM. But to mo gal and business experts, benefits outweigh its s comings. Luminaries su former New York Gov Mario Cuomo, former F rector William Webster once Supreme Court no Robert Bork have sign as highly paid referees. vard Law School is laun a journal this fall de to ADR. Blue chips from eral Mills Inc. to IBM setting up their own dis resolution programs. An torney General Janet Re cently announced that Justice Dept. would a 170,000 civil cases a ye private arbitrators. "The are timeliness, predicta and fairness," says Jam Seifert of Toro Co., a lawn-mower ufacturer that has seen a 70% dr the cost of settling claims since inst a voluntary ADR program. "You get that through the legal system.

The boom in ADR is especially t in California, where the state's t

The Idea Is Spreading

At least 35 states have alternative dispute resolution (ADR) programs. And new ADR options are pending around the country. Here are some existing programs:

CALIFORNIA Judges may refer disputes of $50,000 or less to nonbinding arbitration before heading to court. Standard real estate contract disputes also are handled through ADR.

OHIO State officials have launched ADR programs, including one that teaches dispute resolution techniques in primary and secondary public schools.

FLORIDA The Florida Supreme Court educates and certifies mediators who hear cases referred by trial judges. Also, worker's compensation claims go through court-administered mediation.

DATA: BUSINESS WEEK

ːes law is unleashing new pressures
he courts. A Rand Corp. study es-
tes that the measure, which cracks
n on repeat offenders, could cost
state as much as $6.5 billion a year
nforce. In Los Angeles alone, the ju-
ry predicts that pending three-
e cases will cost the county an ad-
nal $78 million to manage. But in
because of an aggressive ADR pro-
ı, civil filings in Los Angeles Coun-
ave plummeted since 1987—from
)0 to 28,000 in 1993—helping to
the pipeline for judges managing
growing docket.

ıe private sector uses ADR in a
ber of ways. Farmers Insurance
p Inc. created a pilot program in
ornia and Oregon for voluntary me-
on of auto-injury claims. It resolved
7,000 cases at a savings of $4 mil-
While that's only a fraction of the
ance giant's $300 million in annual
costs, the company expects yearly
gs to grow to $20 million or more
997 as Farmers rolls out the pro-
nationwide, according to Mickey
ds, director of liability claims.

RATE. Toro, the lawn-mower com-
borrowed a technique from the
h-care industry. Like the arrange-
s managed-care outfits craft with
rs, Toro guarantees a minimum
er of cases to Court Alternative
p, a Florida mediation firm, and
the group a flat fee per matter to
isputes settled before they become
its. "It's really a form of capita-
says John J. Upchurch, chairman
urt Alternatives.

ll, some critics complain that ADR
s business. That's the charge in a
action brought against Bank of
ica, which sent notices to cus-
s informing them that disputes
nly be settled through binding ar-
ion. Plaintiffs say the bank needs
consent before forcing them into
ation and out of their right to a
But a judge last year took the
side, deciding that ADR is a pre-
route for dispute resolution. The
s now on appeal.

ther concern is that private arbi-
s have too much unchecked clout.
t rulings have extended the au-
y of arbitrators by making an ap-
early impossible. "Arbitrators now
owers that would make any self-
ting judge drool with envy," says
r Gilbert, an appellate court judge
ıtura, Calif. In January, the Cali-
Supreme Court ruled that the
ator in a hardware-patent dispute
en Intel Corp. and Advanced
Devices Inc. could dispense "un-
and even bizarre punishment" so
s it "even arguably" relates to
spute. "That case sent a chill through the business community," says Rand researcher Deborah Hensler.

Some critics fear that arbitrators have too much unchecked clout

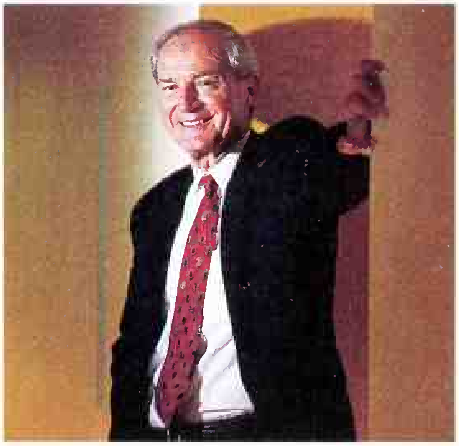
To reassure its critics, industry leaders, in conjunction with the American Bar Assn., are attempting to create a national oversight system and uniform ethical guidelines. A draft proposal is expected to be ready within six months.

But that hasn't satisfied some critics, who worry that in the rush to embrace an alternative legal system, the traditional court system will suffer even more. "We make a strong rhetorical commitment to the public justice system, but we are unwilling to fund it," says Judith Resnik, a law professor at the University of Southern California. "I don't think the answer is letting the private sector pick up the slack." For JAMS and others in the ADR business, though, picking up the slack is proving to be a gold mine.

By Eric Schine in Los Angeles and Linda Himelstein in New York

A RENT-A-JUDGE WHO LOVES HIS WORK

When Justice Edward A. Panelli retired last year from the California Supreme Court, eight years before his term was set to expire, he had visions of leisurely days on the golf course. He would keep his hand in the law by adjudicating a few matters. But mostly, his time would be his own. "A short-lived fantasy," Panelli now recalls.



JAMIE TANAKA

GOLDEN YEARS

The action and the money "can be very seductive," says Panelli, whose income doubled

Then Panelli got an offer he couldn't refuse. John Unroe, CEO of Judicial Arbitration Mediation Services/Endispute, the fast-growing Orange (Calif.) mediation firm, wanted Panelli as JAMS's chief judge. It wasn't just that the 63-year-old jurist would have his pick of cases involving everything from auto injuries to toxic spills. For Panelli, the son of poor Italian immigrants, a big temptation was also the prospect of earning $250,000 a year, double what he was making when he stepped down after 26 years on the bench. The action and the money, says Panelli, "can be very seductive." (Panelli splits evenly with JAMS a $500-an-hour fee.)

In little over a year at JAMS, Panelli has bought and is remodeling a new home in Saratoga, Calif. And like many other judges who have cashed in on private justice, Panelli is working harder than ever. He has handled 250 cases so far, and his calendar is booked through August. "I helped make law that affected 30 million Californians," says Panelli. "But you would never see the results. Here, if you've done your job well, everyone goes home with big smiles."

In his biggest case yet, Panelli, a wiry runner with two New York City Marathons under his belt, bounced between insurers and groups of investors to hammer out a decade-long dispute stemming from a $130 million securities fraud. After only three days, Panelli cracked the case, and investors got 80% of their money.

Panelli says he misses the prestige of the California Supreme Court. Still, he views his current job as a form of public service. "The courts are overburdened and need relief," he says. For Panelli, providing that relief is the best job he has ever had.

By Eric Schine in San Francisco

STRATEGIES

HAS PAUL KAHN LOST HIS MIDAS TOUCH?

AT&T's credit-card magician wanted his own show. He got it–and a bag full of trouble

Back in 1993, when Paul G. Kahn walked away from the top spot at AT&T's Universal Card Services unit, the credit-card maven could have had his pick of jobs. In less than four years, Kahn had hoisted AT&T into the big-time in the U.S. credit-card industry, creating a $1.4 billion business with 16 million cardholders. Along the way, Kahn also won a Baldrige Quality Award for AT&T—and a reputation as a rising star. When he quit, several industry giants tried to lure him, but Kahn wasn't tempted. "I wanted to be my own boss," he says.

Kahn chose tiny SafeCard Services Inc., a $175 million Jacksonville (Fla.) company with a controversial past and a future full of questions. SafeCard provides a credit-card registry service that notifies issuers when cards are lost or stolen. Since taking over as chairman in late 1993, Kahn has put it through a turbocharged change. He has spent heavily to beef up the core card-registry unit and has moved into a slew of new businesses. To win over shareholders, who had watched the stock stagnate around 10 for years, Kahn bought back 10% of SafeCard's shares while promising 30% compounded annual growth and $500 million in revenues by 1997. By February, shares in the company—since rechristened Ideon Group—soared to 21.

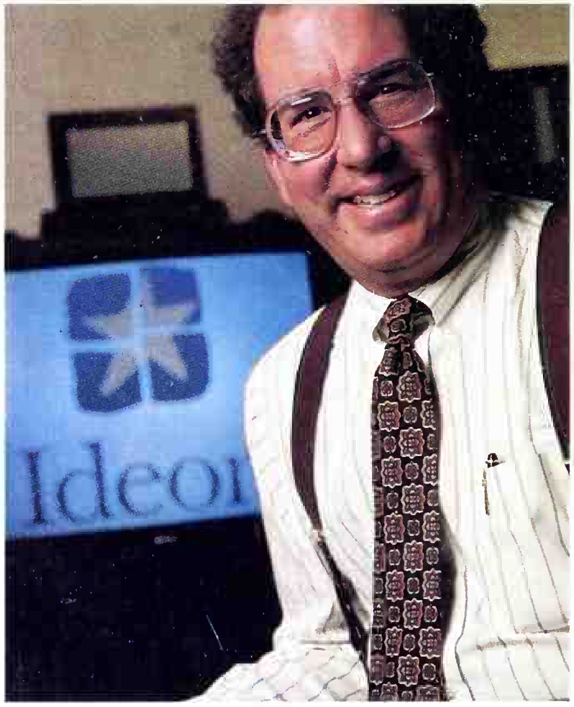
VENDETTA? But Kahn's new life as an entrepreneur has been far from smooth. Former Chairman and co-founder Peter Halmos resigned in 1990 in favor of his brother, co-founder Steven Halmos, after he was targeted in a criminal investigation by the Internal Revenue Service. The probe was later dropped, with Halmos cleared of wrongdoing. But Halmos has slapped the company with five lawsuits charging Ideon's board, and later Kahn, with everything from fraud and stock manipulation to stealing ideas for new businesses. Moreover, in a recent letter to the Securities & change Commission—reprinted in a page *Wall Street Journal* ad—Ha charges Kahn with lavishing com funds on new ventures that are ducing only meager results, while h problems in the core card business shareholders. "At least we made ey," says Halmos.

Kahn calls the charges "ridicu and baseless." So far, the lawsuits not succeeded, and most analysts investors view them as a ven by a man bitter over losing trol of the company, a charge mos denies. But in one way, mos appears to be right: Vi Ideon's revenues grew 11% $173 million, in 1994, hi spending sent earnings down to $18 million. Kahn assured Street in recent months that strong sales of recently launched products about to kick in, Ideon w meet analysts' earnings estimat $17 million to $20 million this year, a big leap in 1996.

But on May 25, Kahn announced weak initial response to two of t

IDEON INVESTS HEAVILY TO DIVERSIFY

- **Family Protection Network:** A database registry to help parents locate missing kids. Cost: $18 million
- **National Leisure Group:** Bought in Feb. 1995, National Leisure offers packaged vacation tours. Cost: $15 million
- **Vatican Art Collections:** Now in test marketing, Ideon wants to sell Vatican art reproductions through direct mail and magazine campaigns. Cost: $1.75 million



- **PGA Partners card:** Th first of Ideon's planned mov into co-branded credit card the Partners card lures golf with Pro-Am clinics and tou naments. Cost: $25 million
- **Wright Express:** Acquir in Sept. 1994, Wright provid gasoline credit cards that h trucking fleets control drive expenditures. Cost: $35 mill

IN LATE MAY, KAHN STEPPED BACK FROM ROSY PROJECTIO

RICK LEE

products would cut 1995 revenue
:h—and that earnings would not
e low end of analysts' projections.
now refuses to comment on
ıer Ideon will even be profitable.
n 24 hours, Ideon's shares sank
tumbling to around 9. "The long-
prospects aren't encouraging,"
ɔne disgruntled shareholder.

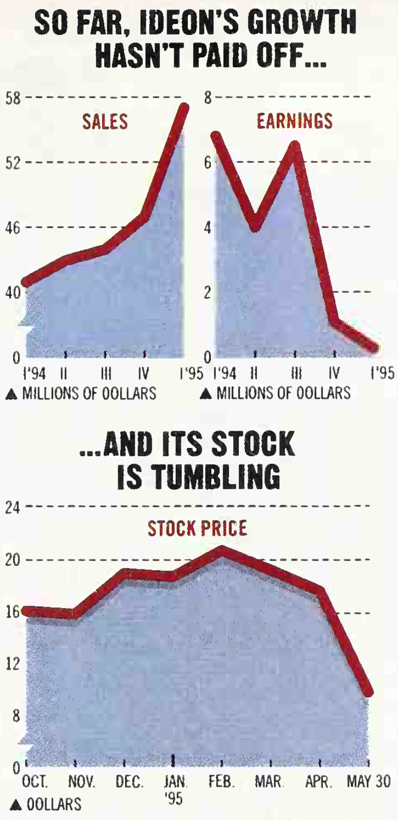
ın dismisses the problems as little
than a "hiccup" in a makeover
ılways promised to take several
"Both are brand-new businesses,"
/s. "This is just a matter of revis-
em." Over the next three months,
will rejigger its product offer-
nd marketing plans. In the mean-
with the stock cheap—and in
of demonstrating confidence to
.ors—Ideon announced plans on
29 to buy back 2.5 million more
;, news that nudged the stock up
ırly 10.

a far cry from what Wall Street
:ed when Kahn took over in late
Shareholders had long been dis-
ed with SafeCard's slow growth
ınguishing stock. But it wasn't
ate 1992 that the board pushed
ı to resign and finally cut Peter
ɔs' consulting contract with the
ny.

.n seemed the perfect choice to
) SafeCard. The savvy marketer
ansformed the stodgy card indus-
most overnight with Universal,
slashed interest rates and prom-
ıose who signed up early no fee
e. Traditional bank-card issuers
it wouldn't work. But when mil-
igned up, rivals were forced to
:heir charges down as well, and a
narketing-driven era in the card
:y was launched.

ACTION. When SafeCard called,
iked what he saw: Its dominance
lucrative card-registry market
sitting on $180 million in cash.
Kahn: "This was a very poorly
ıed company" badly needing mar-
polish. If he succeeded, Kahn
o profit handsomely on options to
to 1 million shares at $13.

n wasted no time. He replaced
f SafeCard's old executives with
es from Universal, American Ex-
and MasterCard. He computer-
afeCard's reams of microfilmed
er data. He figured that by com-
sophisticated database manage-
vith the direct-mail techniques
ected at AT&T, he could cut Safe-
sky-high turnover rate and sell


SO FAR, IDEON'S GROWTH HASN'T PAID OFF...

...AND ITS STOCK IS TUMBLING

DATA: COMPANY REPORTS, BLOOMBERG FINANCIAL MARKETS

more services to customers. That appears to be working: Ideon's core card revenues grew 11% in 1994, up from the 7% annual rate they had averaged.

At the same time, Kahn moved into new ventures. Last fall he spent $35 million for Wright Express. Wright, which analyst Ned Davis of Oppenheimer & Co. estimates will have 1995 revenues of $21 million, supplies gasoline credit cards to transportation companies to monitor drivers' expenses. In February, Ideon paid $15 million for travel agency National Leisure Corp.

In April, Kahn launched a credit card linked to the Professional Golf Assn. tour—the first of up to a dozen cards he plans. For a $15 to $45 annual fee, cardholders gain special access to golf events such as Pro-Am tournaments and clinics with professionals. Ideon is also spending $18 million to launch Family Protection Network, a registry that allows parents to store their children's pictures, fingerprints, and other data. For fees ranging from $50 to $250, Ideon will notify police and work with private investigators to locate missing kids. In March, Kahn also began test-marketing direct-mail sales of reproductions of Vatican artworks.

Kahn argues these diverse businesses all share one thing: sophisticated computerized marketing techniques. They are linked not by what they sell, but how: "We're a family of service companies that are information technology-based," he says. "We all use database marketing either to sell or deliver our customer service."

MIDAS TOUCH. Kahn argues that by sharing databases and knowhow, all the companies under Ideon will benefit. Alone, Wright Express never had the money or the skills to analyze the data generated by its cards. Now it is using Ideon's computers to develop new financial services for its transportation-company clients. And Kahn argues that Family Protection Network will also benefit from SafeCard's ability to register vast amounts of consumer data, then rapidly notify authorities countrywide of problems.

So far, however, the Midas marketing touch Kahn displayed at AT&T seems to be missing. Although Kahn projected the PGA-linked card would have 500,000 to 1 million subscribers by yearend, it has gotten off to a poor start. "It could be that our offer was just too complex and we need to simplify it," Kahn says.

Nor has Family Protection Network worked. Kahn blames poor marketing. But it has also run into opposition from police forces and nonprofit agencies that work with families of missing children, who say the business simply exploits fears without providing real security.

Meanwhile, costs have soared. With hundreds of additional personnel soon to fill Ideon's new $39 million Jacksonville headquarters, coupled with sharply higher marketing and research-and-development spending, overhead rocketed 47%, to $43.3 million last year. And shareholders complain that they have received scant explanation for why Ideon has gotten so little for its money on the new products. "[Ideon] has offered no defense of their marketing research or of how they went into the new products," says one. "They've essentially said, 'Trust me, it's going to work.'" Analysts say they no longer have a clue what yearend results will look like—and that's why the stock has fallen so far, so fast. Right now, the verdict on this first-time entrepreneur is not good.

By Antonio N. Fins, with Jane Tanner, in Jacksonville, Fla.

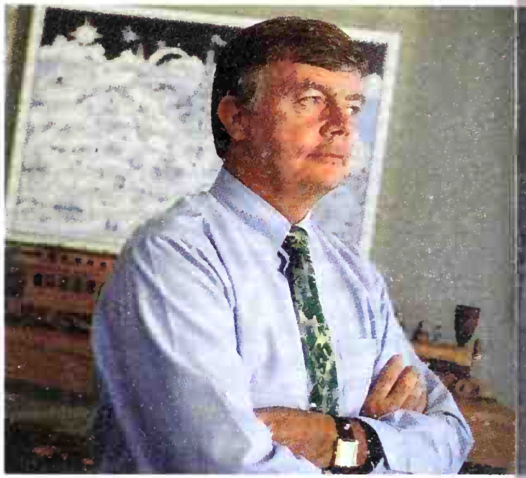
Kahn's businesses at Ideon all share an emphasis on sophisticated computerized marketing

CHART BY ALBERTO MENA

ACQUISITIONS

WHAT'S A SATELLITE COMPANY LIKE YOU...

COMSAT's buying spree has Wall Street wondering



Despite its risk and cash demands, entertainment is t fastest-growing part of COM

CROCKETT INTENDS TO MAKE FIVE MOVIES A Y

Bruce L. Crockett and Charlie Lyons were having a ball answering reporters' questions by phone from COMSAT Corp.'s Bethesda (Md.) headquarters on May 25. COMSAT's CEO and president invited suggestions on what to rename the Quebec Nordiques, the National Hockey League team they had just bought for $75 million. They joked about the hoopla announcing a new name could provide.

But Wall Street wasn't exactly laughing. After all, five years of COMSAT's persistent attempts to diversify from satellite communications into various forms of the entertainment business have generated a stock price of around 19—about where it was in 1989. "The question," says Smith Barney Managing Director Charles W. Schelke, "is whether a telecommunications company should be undertaking this kind of diversification in the first place."

If you've never heard of COMSAT, that's because, until recently, it specialized in the prosaic business of delivering other people's data, voice, and video information via satellite. It was created as a publicly traded company by the government in 1963 to link U.S. phone companies to the global network of INTELSAT communications satellites. By 1989, it had grown into a $475 million operation, but that year, COMSAT execs began to see that fiber optics threatened the core business. They needed a hedge.

So, since 1989, COMSAT has used its hefty cash flow to imitate Ted Turner (table). It has bought the Denver Nuggets basketball team, a Hollywood film-production company, one-third of a Denver theme park, and On Command Video Corp., which beams pay-TV programs via satellite to nearly 600,000 hotel rooms. Now, Crockett is adding the Nordiques, which will move to Denver. And with partner Anschutz Corp., he's building a $132 million, 19,000-seat Denver arena to house the sports teams. PepsiCo Inc. will pony up some $70 million to post its name on the building.

With all the acquisitions, COMSAT's entertainment assets provided 19% of the company's $826.9 million in 1994 revenues. Problem is, investors who were used to steady satellite earnings worry about the fickle nature of sports and movies. COMSAT's entertainment assets posted a thin $11 million profit last year on revenues of $157 million. But in the first quarter, entertainment lost $3.2 million because of steep equipment amortization in its On Command business and costs at the studio, Beacon Communications Corp.

ON SALE? The loss dropped COMSAT's overall first-quarter profit to $14.6 million from last year's $20.2 million. Smith Barney Inc.'s Schelke estimates that 1995 earnings will sink to $133 million from $150 million in '94. So investors have been pushing COMSAT to spin off part of the entertainment unit to shareholders or find partners willing to invest. Crockett says he'd consider such options and vows to boost the stock price.

But he also sees promise in what he has. Entertainment is COMSAT's fastest-growing unit, and the company has done a fine job of turning around the Nuggets, which had only 2,500 s ticket holders in 1990. Today, the sells more than 13,000 season t turning a small profit. The Nor offer a similar opportunity. Aner tendance in tiny Quebec City ha diques officials projecting $28 mil losses over the next two years. S crazy Denver, though it once re pro hockey, should be more supp

As for On Command, COMSA doubled the number of hotel ro services, to 590,000, according searcher Paul Kagan Associates, market leader Spectravision Inc chains such as Hilton Hotels Cor Crockett is stepping up TV and production. COMSAT and Liberty a unit of Tele-Communications jointly own a TV studio in Den make local sports programs. COMS boost production at B the maker of *The* *to Wellville* and *The* *mitments*, to five m annually.

All that takes mon patience, and Wall St notoriously short on t ter. "We intend to place where you can to see a movie, a ball or to play," says B Chairman Armayan stein. Sounds great. I vestors prefer a place for steady earnings.

By Ronald Gro
Los Angeles

NUGGETS TO NORDIQUES

COMSAT's acquisition trail

1989 Bought a 63% stake in the Denver Nuggets basketball team for $18 million. Gained full control in 1992.

1991 Acquired a 47% stake—later increased to 74%—in On Command Video, which delivers movies to hotel rooms.

1994 Merged with telecommunications-equipment maker Radiation Systems for $150 million in stock.

1994 Paid $29 million for Beacon Communications, a film production company.

JANUARY, 1995 With Anschutz, committed to building a $132 million, 19,000-seat arena in Denver.

MAY, 1995 Purchased the Quebec Nordiques hockey team for $75 million.

CHRIS USHER

ED BY PETER COY

M, THAT'S GOOD BACTERIA

ATURE, ONE OF THE
t things that newly
hed chicks eat is their
hers' feces. Fecal bacte-
thrive in the chicks' in-
ines, keeping more
mful organisms from
ng hold. Thus, by separ-
g about-to-hatch eggs
n their layer hens, mod-
poultry production
es the chicks more sus-
ible to salmonella and
pylobacter, which cause
ases in humans. In Eu-
. as a result, many
ks are fed a substance
derived from excrement.

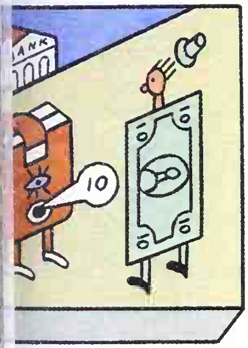
U. S. Agriculture Dept. researchers Norman J. Stern, J. Stanley Bailey, and Nelson A. Cox Jr. say they have developed an approach that is more focused and efficient: They feed chicks only the kinds of bacteria that compete with salmonella and campylobacter. The bacteria come from secretions along a chicken intestine's lining. The bacteria are collected from slaughtered chickens, cultured, and mixed with water that is then sprayed on chicks and given as drinking water.

In tests conducted at Continental Grain Co., a New York-based poultry producer, the Agriculture team's technique reduced the incidence of salmonella in chicken carcasses to less than 10% vs. 35% in a control group. So far, it's less effective against campylobacter.

Continental Grain has licensed the USDA patent and is seeking Food & Drug Administration approval to use the method commercially.

MUCH CASH
YOU GOT?
YOUR WALLET

LIND PEOPLE, IT IS
to handle paper cur-
U. S. bills are all the
size, so often the only
tell a $10 bill from a
is to ask someone
an see. But soon, the
ssion "money talks"
ave a new meaning.



y C. Phillips, an 18-
ld senior at Long
High in Lido Beach,
has invented a wallet-
dget that reads the
r in the corner of a bill
en announces the bill's
ination over a little
r. It makes no differ-
hich side of the bill is
ause an infrared beam
through the paper as
s the corner. The pattern of ink detected by the beam is matched against those stored in a computer chip, and the result is fed to a voice-synthesis chip.

Earlier this year, her Money Talks electronic wallet won Phillips the No. 2 prize in the Westinghouse Science Talent Search, a $30,000 scholarship. More recently, the invention earned her nearly $20,000 in prizes at the International Science & Engineering Fair. And that may be just the beginning. Phillips has a patent pending, and she has already negotiated licenses with several companies. Which ones? Phillips demurs: "My lawyer says I shouldn't say."

FROM PHOTOS TO 3-D MODELS—FAST

THE MAKING OF 3-D COMPUTER models of real-world objects is an excruciating process. Hundreds or even thousands of points on the surface of the object—be it an actor's face or a skyscraper—have to be specified and translated into spatial coordinates that the software can read.

Eos Systems Inc. figured the process would be a lot simpler if computers could "stretch" a regular, flat photo into a three-dimensional model. So the Vancouver (B. C.) company devised a simplified approach to photogrammetry—the process used for drawing latitude lines on maps.

Two photos taken from slightly different angles are placed side by side on a computer screen. After the locations of corresponding points in both photos have been ticked off, the computer can create a stereo view. To build a complete model that can be fed into computer-aided drafting (CAD) systems, the procedure is repeated for all sides.

Among Eos Systems' first customers are forensic engineers, who reconstruct crime scenes in 3-D, and TRW Inc., which uses the technique to survey power plants.

THIS ON-SITE LAB SLASHES CLEANUP COSTS

WHEN HAZARDOUS-WASTE areas are cleaned, about 40% of those considerable expenses go toward collecting and testing water, soil, and air samples. In addition to the high cost of the laboratory work, it can often take months to get the results back.

One solution: equipment that can measure contaminants right on site. Tufts University chemist Albert Robbat has developed one such "laboratory in a box." Robbat's kit combines a gas chromatograph and mass spectrometer in a one-cubic-foot metal box that's light enough for two people to lug out to a cleanup site, and it provides quick readouts on the presence of gasoline, pesticides, solvents, and other noxious stuff. The box slashed the time it took to analyze materials at a Navy base in Yuma, Ariz., last year, Robbat says.

Still, only 5% of all samples collected at hazardous-waste sites are analyzed in the field, according to Tufts' Center for Field Analytical Studies & Technology. Why? Manufacturers are reluctant to produce innovative testing gear because it can take years to get lawyer-shy regulators to approve testing done outside of conventional laboratories, say Tufts researchers.

PHOTOGRAPH BY ROBERT MAIER/ANIMALS ANIMALS; ILLUSTRATION BY MARIS BISHOFS

MEDICINE

IS MEDICARE BEING A LITTLE TOO CAREFUL?

Doctors are fuming over its coverage of experimental devices

Dr. David M. Steinhaus hates telling his elderly patients that America's vaunted medical system won't give them the best available care. But that's just what Medicare is forcing him to do, he says.

Until a year ago, the Kansas City (Mo.) cardiologist routinely implanted the most advanced pacemaker or defibrillator into people whose hearts needed the electric shocks those devices provide. Not anymore. Medicare now refuses to reimburse hospitals and doctors for procedures that use so-called investigational devices—those that haven't yet been officially approved by the Food & Drug Administration, but may be accepted by doctors. As a result, Steinhaus' patients over age 65—most of his practice—end up with dated technology. "It's utterly ridiculous," he fumes. "How many patients have to leave the hospital without the best devices, or perhaps even die, before the government does something about this?"

Steinhaus isn't the only one who's livid. The flap over Medicare reimbursement for investigational devices has become a major issue for many medical-device companies. To develop new technology, the industry depends on getting paid for these experimental devices, which can cost thousands of dollars apiece, explains Ronald A. Matricaria, CEO of St. Jude Medical Inc. in St. Paul, Minn. "But all of a sudden, they changed the rules," he says. One example: U.S. hospitals shut down clinical trials of St. Jude's improved heart valves, even though the valves could save Medicare money because they last longer.

HIGH STAKES. Such devices are still in the development and testing stage, of course. But they are typically refinements of proven technology and therefore not as risky as a totally new device. Even so, both types require FDA approval. Increasingly, however, the testing of investigational devices isn't being done in the U.S. A new survey of medical-device makers funded by the Health Industry Manufacturers Assn. (HIMA) shows that more than two-thirds plan to move clinical trials of implantable devices to Europe, Canada, or other countries because of the reimbursement controversy. Industry experts warn that this trend could pull U.S. doctors off the leading edge of medical innovation—and transfer technology and jobs abroad.

Given such high stakes, hospitals, physicians, and medical companies are mounting a legal assault to change Medicare's policy. On May 1, a group of 23 hospitals—including powerhouses such as
Mount Sinai, Johns Hopkins, and
Medical Center—filed suit in U.S
trict Court for the Central Distr
California against the Health & H
Services Dept. (HHS). They charg
the rule was issued illegally unde
Administrative Procedure Act.

In addition, lobbyists are wo
with Representative William M. Th
(R-Calif.) and Senator Orrin G.
(R-Utah) on drafting a fix. "We ar
ing Medicare comes to its senses,
Steven Speil, associate vice-pre
for policy at HIMA. If not, he add
bill should do the trick.

Go ahead and get the lawmake
volved, say regulators. Sources a
Health Care Financing Administ
(HCFA), which administers Medicar
HCFA favors a legislative solutio
bureaucratic problem. Trouble i
bill may have a tough time fin
place on Congress' crowded agen

The seed for this controversy
planted back in 1986, when HCFA
a manual to Medicare payers. On
vision among many stated that "n
procedures or services performed
devices which have not been app
for marketing by FDA" were not

To Pay or Not to Pay

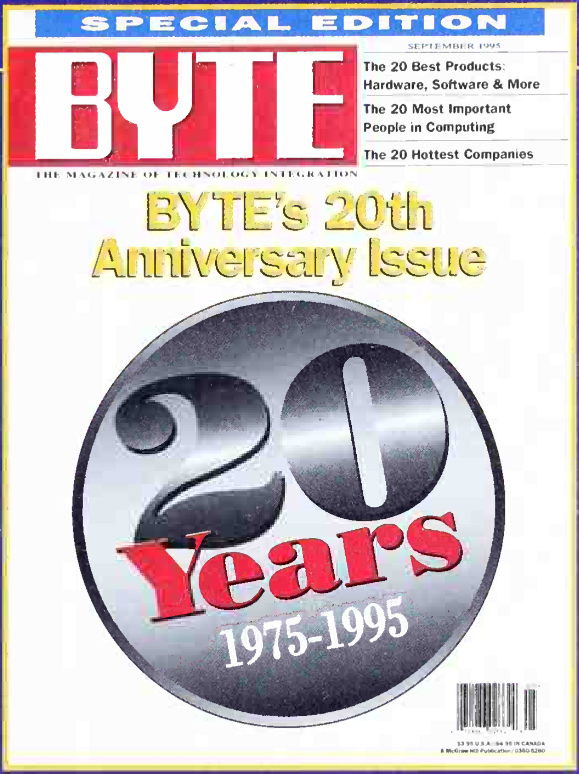
Legal fights have led hospitals to obey a long-ignored directive denying Medicare reimbursement for non-FDA-approved medical devices. The policy was designed to protect the elderly from potentially unsafe experimental devices. Instead, physicians, hospitals, and companies say, the policy is having these negative effects:

- Most patients over age 65 no longer have access to the most advanced pacemakers, defibrillators, or heart valves.
- In some cases, costs to taxpayers are higher, since devices that work better and last longer save money.
- Medical-device companies are moving clinical trials of new devices to other countries. As a result, U.S. physicians will be less familiar with the devices when they are eventually approved.

KATHERINE MAHONEY

Macintosh Classic

Classic point & click.



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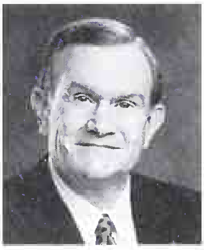
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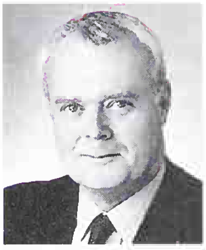
Chairman and CEO,
Eastman Chemical
Company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Chairman and CEO,
Sears Merchandise
Group

Joseph Neubauer,
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Jorma Ollila, Chairman,
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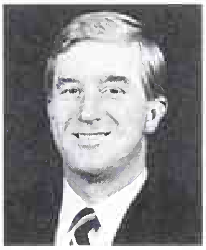
The Honorable
William F. Weld,
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EXECUTIVE PROGRAMS

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covered. The intent was to ensure that people got treatments only after the FDA deemed them safe.

But the policy was almost universally ignored for years. Hospital officials claim they either weren't aware of it or didn't believe it applied to most investigational medical devices. Whatever the reason, many of the nations' top hospitals routinely billed Medicare for procedures using these devices. HCFA claims it had no idea this was general practice.

This cozy mutual ignorance was shattered a year ago when a still-unnamed whistle-blower filed a citizen's suit in Seattle. It accused hospitals of defrauding the government by charging for unapproved devices, leading HHS sleuths to investigate. They subpoenaed a decade of records from 130 U. S. hospitals representing "a real who's who" of cardiac care, says Susan C. Waltman, general counsel of the Greater New York Hospital Assn. The hospitals' response was to halt virtually all clinical trials involving Medicare patients.

"FRUSTRATING." In some cases, the impact on the quality and cost of care was dramatic. Cardiac arrest survivors typically need defibrillators to shock their hearts back to normal whenever the fragile organ races out of control. For several years, the standard device was so large that it had to be implanted in patients' abdomens. But Minneapolis-based Medtronic Inc. built a much smaller version that could fit in the pectoral region. In trials at the Mayo Clinic, says cardiologist Stephen C. Hammill, the new device reduced deaths from the actual operation from 3.8% of patients to zero—and cut hospital costs after implantation from $24,000 to $13,000. Yet Mayo's doctors could no longer use the device for Medicare patients—unless they found another way to pay the bills.

The FDA approved the smaller defibrillator this spring, making it eligible for Medicare reimbursement. But now, Hammill can't use an even better version, which needs only one wire threaded into the heart instead of two. "It's frustrating," says Hammill. "We are falling behind Canada and Europe in what we can provide for our patients."

Meanwhile, the Health Dept. Inspector General's office is finishing its fraud probe, which sources say is largely a fizzle. Investigators appear ready to seek indictments against only a handful of doctors or hospitals that clearly knew about the HCFA policy yet charged for investigational devices. Most of the nations' top medical centers won't be accused of fraud. As outcomes go, it will be small potatoes—and small consolation to patients who, as a result, are now stuck with yesterday's technology.

By John Carey in Washington

COMPUTERS

APPLE'S ASSAULT

CEO Spindler has lots of new products. He'll need ther

Since Apple Computer Inc. nearly ran itself into a ditch two years ago, its future has been in question. With Microsoft Windows becoming increasingly dominant and Apple's market share slipping, rumors surfaced that the company would be sold—to IBM, Motorola, AT&T, Oracle, Canon, or a Japanese consortium. You name it. "This company is not for sale," says Chief Executive Michael Spindler. "I can't comment on rumors that people invent. But some of them are just nuts!"

Not only is Apple not takeover bait, says Spindler, the world's No. 2 PC maker has "its house in order" and is in tip-top fighting shape. This summer, Apple will let loose a fusillade of new Macintoshes and PowerBooks, beefed up with the speedy PowerPC chip and starting at about $1,600—12% cheaper than today's cheapest Power Macintoshes. It has reorganized to zero in on its traditional strength in the home, education, small-business, and entertainment markets. The Windows version of Apple's eWorld arrives this fall, boosting its presence in the online world. And after idling on the side of the road for a year, Apple is nosing back onto the Information Superhighway with orders for 5,000 TV set-top boxes. Vows Spindler: "You will see a very aggressive Apple."

That's critical, since Apple stil
an uphill fight to regain worldwid
ket share, which dipped to 8.3
year from 9.4% in 1993. If the
continues heading south, even the
loyal developers of Mac software
start looking for bigger market
Spindler's turnaround could langu

Spindler says he'll have all the
py, low cost products he needs. A
has authorized for this fall the b
advertising blitz in the company's
ry to win over new customers, pa
larly in the fast-growing home-P
ment. Apple executives aren't t
numbers, but the record to beat
$100 million that analysts say
spent during last year's Christma

"MAJOR BATTLE." Apple also is g
back into the trenches to try t
back in the corporate market. It's
and transferring employees from
departments to form a core grou
will descend on customers in key
kets. These so-called "customer
tion" commandos will combine A
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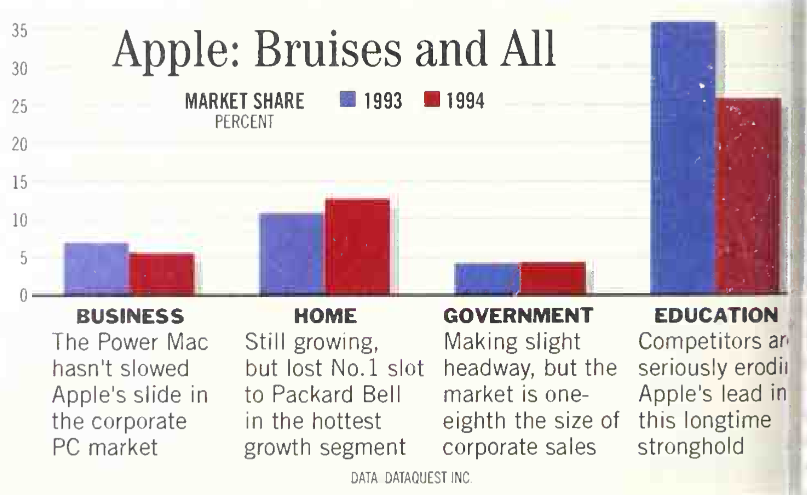
Daniel L. Eilers, senior vice-pre
for worldwide customer solu
"There is a major battle brewing



DATA: DATAQUEST INC.

GRAPHICS BY ALAN BASEDEN

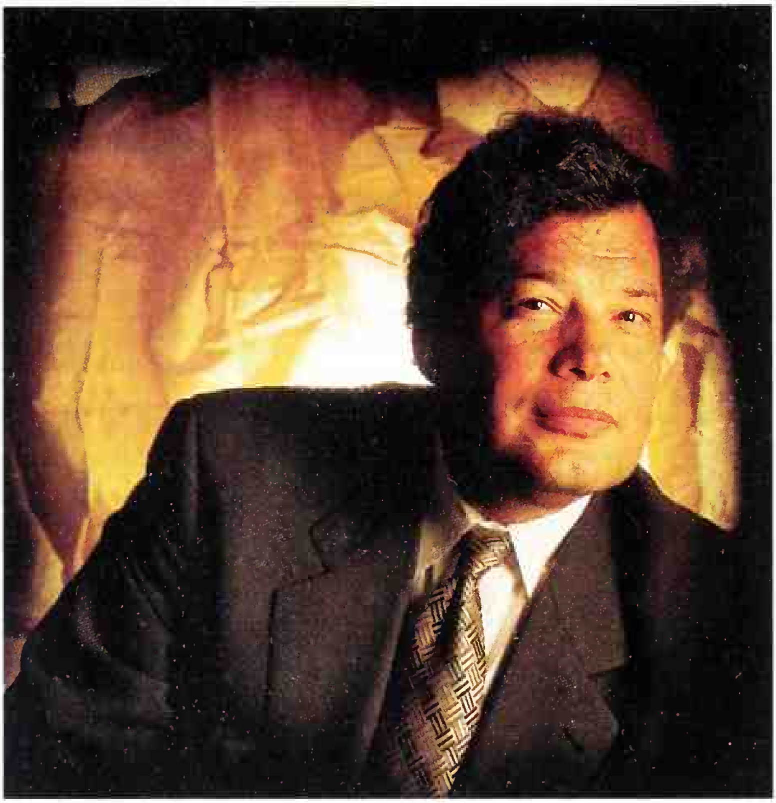
ole's real battle will ence on Aug. 24— Microsoft Corp. is uled to ship Win- 95. A major update Microsoft operat- stem, Win 95 will BM-compatible PCs rts of new, whiz- abilities—including of the Mac's "ease e" features. Not s Microsoft poised end an estimated million promoting product this fall, of computer and are makers will be the Win 95 band- . Analysts predict be an instant hit: lion copies in just onths.

GENERATION. The will rock Apple's nd could scuttle its o retake market Test copies of Win v in the hands of 400,000 customers hat the program still falls short of ac in areas such as "plug and (which makes it possible to add ardware without reprogramming). in 95's elegant, new look is closing p. Says Windows promoter Gor- Eubanks, CEO of software maker tec Corp.: "I don't think Apple way. But it's hard to see this as ews for Apple."

reaction around Apple's Cuperti- lif.) headquarters is predictably Employees have a new slogan: 5 is Mac '89." And when they get serious, they show off Mac next-generation Macintosh op- system called Copland. Due in 96 at the earliest, Copland fea- heavy dose of agent technolo- ftware programs that automati- erform tasks for you, such as E-mail or making travel ements.

l Copland arrives, however, Ap- l be fighting with conventional s—powerful new models, lower and lots of ads. The first wave, ple insiders, will begin June 19 second-generation Power Mac es the now-industry-standard PCI connecting major subsystems the Mac. This new model will 604 PowerPC chip, giving it wice the oomph of today's Power n July and August, there will more Power Macs and two Pow- sed Performas, boosting Apple's for the home.

portables will hit Aug. 28 when Apple brings out the first PowerPC-based PowerBooks, priced from $2,000 to $3,500. These will weigh less yet have a bigger screen than today's PowerBooks. Apple executives are particularly enthusiastic about the new PowerBooks: Their research indicates that 10% to 15% of PowerBook buyers own Windows machines, and they figure the PowerPC models could attract more converts. Says Eilers: "We are perfectly positioned for the best [December] quarter in the company's history." The old record: profits of $188 million on sales of $2.8 billion, set last year.



ROBERT HOLMGREN

UPHILL FIGHT

Software developers could abandon Apple if Spindler can't deliver new products that will boost market share

TOUGH SELL. Chief Financial Officer Joseph A. Graziano is also predicting big things. He figures the company can boost its market share one percentage point this year—even in the face of Win 95. Analyst Bruce Lupatkin of Hambrecht & Quist Inc. is forecasting 1995 fiscal year net income of $530 million on a 23% jump in revenue, to $11.3 billion. That's up 70% over last year's lackluster showing of $310 million. The stock is around 42, up from the mid-30s late last year. Says Lupatkin: "Apple is doing real well. And Apple management is feeling very good right now. But that doesn't diminish the long-term threats."

The biggest among them remains loss of market share. That's where the clone strategy comes in. So far, only startup Power Computing Corp. sells mainstream Mac clones. It says it will sell 100,000 machines in the next 12 months. By summer, Pioneer and others will join the Apple-cloner ranks. This winter, consumer-electronics maker Bandai is expected to launch Pippin, a $500 multimedia player that plugs into the TV and runs existing Mac CD-ROM titles. Pippin first will be sold in Japan. If it clicks, it will hit the U.S. in the first half of 1996. Rick Shriner, an Apple vice-president, predicts that 500,000 to 1 million Pippins will be sold next year.

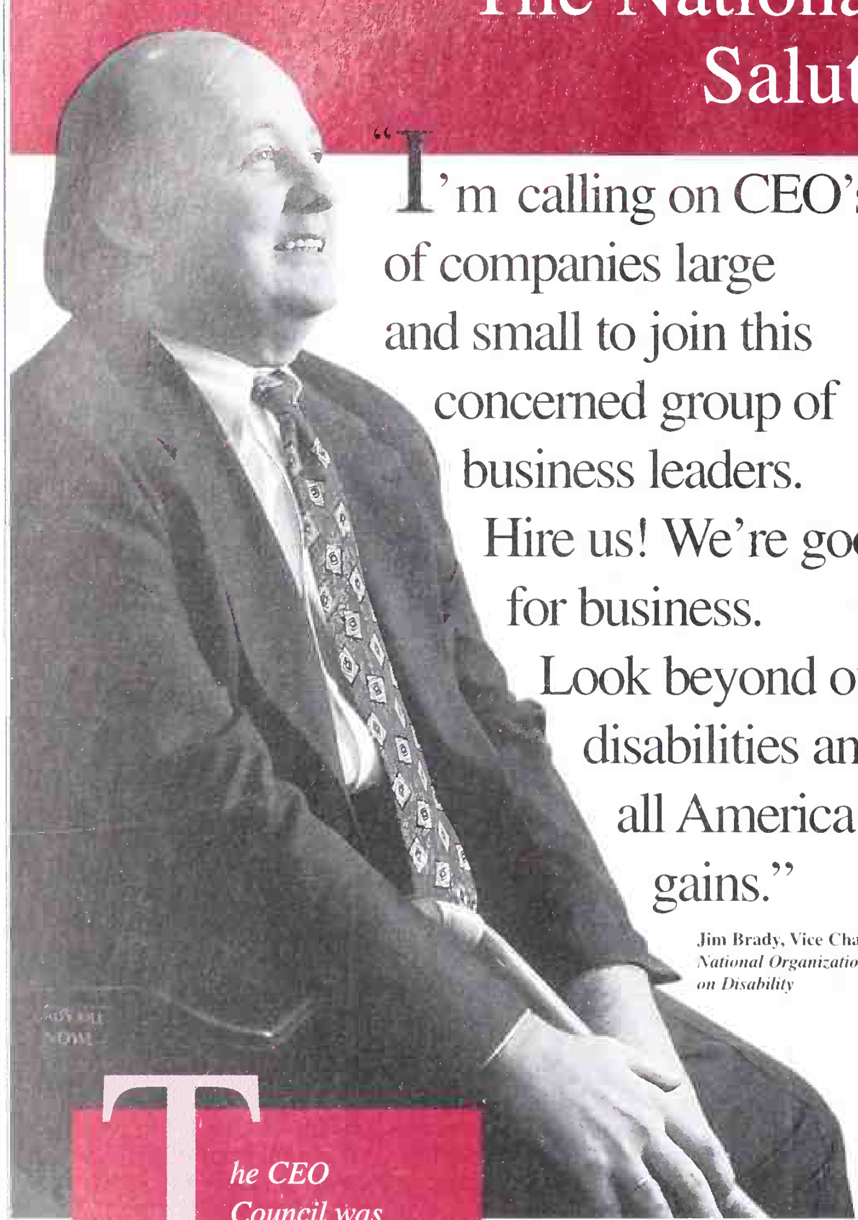
Shriner heads Apple's new Interactive Media Group, charged with moving Mac technology into emerging markets—thus giving software developers greater incentive to stick with the Mac. So far, his team is getting into interactive TV with $750 Apple set-top boxes adopted for trials in Britain, Belgium, Sweden, Norway, and Germany. Apple says the boxes won't add much to the bottom line but will extend the Mac's reach.

Are software developers getting the message? It's far too early to tell, but there is anecdotal evidence that Apple is at least holding its own. While Microsoft is pushing Win 95 as a game platform, for instance, Apple is attracting new game developers, too. ID Software, the maker of top-selling *Doom*; Lucas Arts, the company behind the popular *Rebel Assault*; and Virgin Interactive, which sells the hit *7th Guest*, are converts. They say they were won over by Apple's licensing program and multimedia lead—Apple was the No. 1 seller of multimedia PCs last year, according to Dataquest Inc.

Mac may still be a tough sell to hard-core Windows developers focused on productivity programs—the bulk of today's market. Says J. Paul Grayson, CEO of Micrografx Inc., which has no plans for Mac versions of its Windows graphics programs: "I have serious doubts about Mac. It may have peaked." Such remarks drive home Apple's challenge. While Spindler may have put the company in tip-top shape, he still has to win the fight.

By Kathy Rebello
in Cupertino, Calif.

The National Organization
Salute Members of



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LONG JOURNEY, HAPPY ENDING: ADOPTING A FOREIGN CHILD

COMING HOME: *Now, author Kichen finds it hard to remember life without Luan*

It was midnight, July 1, 1994, when our son, Luan, stepped off the plane at Newark International Airport. For Luan, this was the end of a long journey from Vietnam. For my husband, Steve, and me, it was the joyous end of our own journey, which began 12 months earlier, when we decided to adopt a child.

When the time came to have a family, we found out that at ages 42 and 37 it wasn't going to be as easy—or as natural—as we had hoped. We started treatments for infertility but knew we wouldn't try for long. We preferred to spend our time and money building our family through adoption instead of pursuing costly, often invasive, medical treatment. For us, adoption was never a second-best way to have a child—simply a different route to parenthood.

From the beginning, two things were certain: We wanted an agency adoption rather than an independent one, in which a couple makes arrangements directly with the birth mother. And as long as the child was mentally healthy, we were flexible as to sex, race, and nationality.

RESEARCH. I started collecting information from numerous organizations and reading piles of books. I made dozens of phone calls and followed every lead. Speaking with adoptive parents was helpful. We explored adopting through the N.Y. State Social Services Dept. but kept running into dead ends. Some programs were closed to us because of our age or religion. I was interested in adopting from China, but at that time, the Chinese had temporarily closed their doors to outside adoption. (They were reopened at the end of 1993.) Because of obligations at home and work, we were unenthusiastic about spending weeks or months overseas. So we narrowed our focus to countries, such as Korea and India, that allow children to be escorted to the U.S. to complete the adoption.

One of the organizations I contacted was the International Concerns Committee for Children (ICCC) in Boulder, Colo. (303 494-8333). It publishes a monthly photo book with pictures of adoptable children from around the world. The first issue I received contained a photo of a beautiful girl from Vietnam—8 years old, according to the book. There was something in her eyes that drew me. Contacting the agency handling her case, International Mission of Hope (IMH), in Thornton, Colo., I learned that I would need to work through a licensed New York agency, but that IMH could handle the logist paperwork at the Vietr end. I immediately Steve at work to le know I'd found the ac program for us.

The domestic agen chose was America International Aid & Ac (AIAA) in Birmingham (810 645-2211), which censed and has an of New York. On Nov. 1 we sent our completed cation—the first forma

While our applicati

Finding a Child Overseas

Adoption rules vary, depending on age, marital status, and the child's nationality

ina Childless couples or singles aged 35-50 may adopt healthy
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er 35 or over 50 are eligible for infants
minor health conditions, such as
ma, or older children; takes 5-7
ths for referral; expect to spend less
2 weeks in the country; cost:
,000 plus travel.

uador Childless couples up to their mid-40s for infants;
couples and families with kids can
t children 2½ and up; singles can
t children of the same sex age 5 and
months for referral; 3-4 weeks in
try; cost: $10,000 plus travel

India Couples under 42 for infants; single women may adopt special-needs infants or children age 5 and up; 8-12 months for referral; escorts available; cost: $9,000 plus travel.

Korea Couples must have been married at least three years, be no more than 40 years older than the adopted child, or age 45; 6-12 months for referral; escorts available; cost: $12,000 plus travel.

Russia Couples or single women to age 55 can adopt children 6 months and older; 6-12 months for referral; escorts available; cost: $9,000 plus travel.

DATA: WORLD ASSOCIATION FOR CHILDREN & PARENTS

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e most frustrating thing was trying to deal with a process going on thousands of miles away, over which we really had no control.

IMH promised to refer another child, and we continued to wait. In April, we got a fax with a blurry photo and sketchy details about a 3½-year-old boy. Named Pham Thanh Luan, he was healthy and adoptable. Soon we received more photos. He was cute, but looked angry and sad. We knew that, given the chance, we could bring a smile to his face. We started to fix up a bedroom.

The Vietnamese officials processed his paperwork in only weeks. Because there were no diplomatic relations between Vietnam and the U.S., Luan waited a month to travel with an escort to Thailand to get his U.S. visa there. Once the Bangkok embassy processed his visa, he was on a plane within hours. So we had a mere 24 hours notice of his arrival. It was eight months from the day Steve and I filed our formal application. Our total cost: around $15,000.

I realized on the way to Newark Airport that, until Luan came off that plane, nothing was for sure for me. Waiting beside the jetway, my legs were like rubber; I felt as if I was going to throw up. But Moti Irani, our contact at AIAA, had given me wise advice. She told me to keep remembering Luan's experience—that after all the unfamiliar people speaking strange languages and the hours of travel, the world must seem scary to him. Thinking about him kept me strong.

Moti's words guided us through those first days, as we worked to deal with Luan's fear, homesickness, and inability to speak our language, as well as his medical problems: He arrived with intestinal parasites and bad skin sores. Luan screamed nightly for his mother; it was weeks before he slept for more than an hour at a stretch. But even through the roughest times, it was clear we had become parents of a strong, sensitive, exceptional son with a sense of humor.

That was 10 months ago. Today, Luan is a healthy, bright little boy who loves his computer, playing Nintendo, eating pizza, and having his mom and dad read to him at bedtime. He understood English words quickly but still struggles to speak the language.

ROOTS. We believe it's important to help Luan maintain a connection to his Vietnamese culture. Against the advice of many, we opted to keep his Vietnamese name. Since he already knew it, I thought it wouldn't be fair to start calling him Henry or John. We read him Vietnamese stories, play Vietnamese music, and have made friends with several Vietnamese. A few months ago, we took him to a celebration of Tet, the Vietnamese New Year. Luan is quickly becoming an American, but we want him to be proud of where he was born.

Our biggest lesson: Adoptive parents must be flexible. If you have always had your heart set on a girl, think again about a boy. And don't restrict yourself to adopting an infant. One of the great things about Luan was that he arrived with a more-developed personality than an infant; part of the experience was getting to know him.

Sure, the adoption process is often filled with anxiety, frustration, and disappointment. But if you persevere, there can be a happy ending. Luan is our son, and Steve and I are his parents. It just doesn't get any better than that. *Ina Kichen*

ADOPTIONS One group publishes a photo book, updated monthly, with pictures of adoptable children from around the world

FINDING A WAY THROUGH THE ADOPTION MAZE

JODY HEWGILL

Adoption is a long and arduous process, fraught with the risk that your child won't turn out the way you hoped. In other words, it has many similarities with giving birth. Despite those high-profile horror stories about toddlers being removed from their adoptive homes, seven-year waits for infants, or exorbitant costs, "adoption works," says Sandra Gosline, a Philadelphia woman who adopted a newborn 2½ years ago. "Just keep plugging away."

If you persevere—and have deep pockets—you can adopt a healthy newborn, says Arline Tannenbaum, director of adoption services at Work/Family Directions, a Boston-based firm offering consultation and referral to nearly 200 corporations. In the U.S., roughly 60,000 children are adopted annually. About half are infants of the same race as the adoptive parents. Also, half are children with special needs, which may simply mean they are older than 2 or have to be placed with siblings.

Before you begin the process, a lot of research and some soul-searching is in order, says Lois Gilman, author of *The Adoption Resource Book*. If, like most people, you are considering adoption because of infertility, "the main question you need to come to terms with is, do you want to have a baby, or parent a child," says Gilman. If it is parenting you are after, there are thousands of children who need you here in the U.S.

First, learn the laws in your state. Contact public and private agencies for information. Read books, join parent groups, attend conferences, and tell everyone you can think of about your plans to adopt as a way to expand your contacts. Also check with your employer: A 1993 study by Hewitt Associates found that 18% of 1,000 large companies surveyed reimburse some adoption costs. Coca-Cola, for example, provides up to $4,000 per adoption.

ADOPTIONS

COSTLY PROCESS. You'll need the help because adoption is getting increasingly expensive. For an infant, expect to spend between $10,000 and $20,000—largely to cover the birth mother's care, says Tannenbaum. Other trends: Domestically, birth parents are getting more say in deciding who adopts their children and demanding more opportunities to stay in touch. And U.S. courts are enforcing birth father rights, so try to make sure the biological father has signed legal documents giving up his rights. Some couples turn to international adoption in part to avoid the risks of birth parents resurfacing.

Since there is most demand for healthy white infants, these are the hardest children to adopt. The
flexible you can be abou
age, race, health, and
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says Gilman.

If you want an infan
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You can use a private ag
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high fees. Some agencie
have requirements abou
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including a home study
by a social worker, a pi
and a letter you write t
birth mother describing
self, your home, and
plans for the baby. The
mother usually gets to c
the adoptive parents
among several files.

Another option is to
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first. It essentially inv
networking among fri
doctors, and other pr
sionals and advertisi
newspapers to locate a
mother. You then set

Adoption Resources

ADOPTIVE FAMILIES OF AMERICA (AFA) 800 372-3300. Can direct you to local parent groups and free information. Call for its 64-page *Guide to Adoption* and a catalog of parenting resources.

AMERICAN ACADEMY OF ADOPTION ATTORNEYS Box 33053, Washington, D.C. 20033-0053. Write for a free list of lawyers who help with independent adoptions.

NATIONAL ADOPTION INFORMATION CLEARINGHOUSE 301 231-6512. Offers referrals and free information on how to adopt.

NORTH AMERICAN COUNCIL ON ADOPTABLE CHILDREN 612 644-3036.
vocates for "waiting" children, who may be
er, physically or mentally handicapped, have
emotional problems, or be in sibling groups.

BOOKS: *The Adoption Resource Book* by Lo
Gilman ($12), *Adopting After Infertility* by
Patricia Irwin Johnston ($14), *The Essential
Adoption Handbook* by Colleen Alexander-Rob
($13.95). Available through AFA.

DATA: ADOPTIVE FAMILIES OF AMERICA

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EXECUTIVE PROGRAMS

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800-number "baby phone" in your home and wait for pregnant women to call. A lawyer usually acts as intermediary, and you pay the woman's pre-birth expenses. Such adoptions aren't allowed in a few states, such as Connecticut.

While independent adoption may be quicker, it is very expensive and much riskier, since birth parents often back out. But today about half of all infants are adopted this way, estimates the nonprofit Adoptive Families of America. If you pursue this course, hire an experienced lawyer.

RICH REWARDS. To adopt one of this country's estimated 100,000 "waiting" children currently in the foster-care system, you can go through your state's public agency at no cost to you. Subsidies may even be available for mentally or physically handicapped kids. "You need to go into it with your eyes wide open and know that there are additional difficulties" raising a child that may have emotional problems, says Charlotte Vick of the North American Council on Adoptable Children. But seeing such a child thrive in a permanent home can be greatly rewarding.

It's wise to pursue several channels at once, advise Nancy and Ernie Cozadd of Southern California. They suffered the disappointment of having the birth father suddenly appear to protest their long-planned adoption the day they went to the hospital to take their ne
daughter home. "Rathe
keeping this child in
and dragging eve
through the mud, we l
go," says Nancy C
Luckily, a month lat
agency offered them a
old girl and her 5-ye
brother who were sla
be separated. Now th
zadds can't imagine life
out Tony and Mary.
their struggles seem
sacrifice to have the tw
dren they love. *Amey*

SMART MONEY

SOLACE WHEN ADOPTION DEALS SOUR

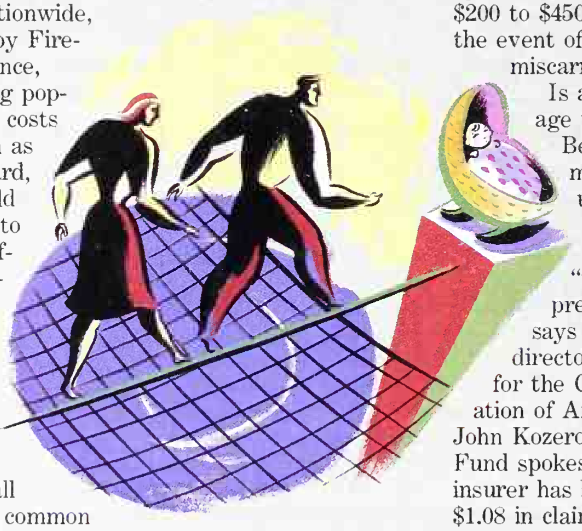
Shayna and Joel Billings thought their long wait to adopt a baby was almost over. They had found a willing birth mother, supported her financially during the last trimester, and were even there to cut the umbilical cord when she gave birth. But 11 days after the Billings took baby Jeffrey home, the biological mother changed her mind. Although the Billings were devastated emotionally, they got a measure of financial solace thanks to a little-known form of insurance that provides protection when adoptions fail.

"SECOND CHANCE." Luckily, after an earlier adoption attempt by the Mountain View (Calif.) couple soured when the father objected, the Billings had bought a $5,000 insurance policy—which recouped half the cost of Jeffrey's failed adoption. "It doesn't make up for the emotional pain of losing the baby," Shayna Billings says, but "this [insurance] gives you a second chance if it doesn't work the first time."

For a fee ranging from $750 to $1,950, adoptive parents can cover $5,000 to $30,000 of certain expenses if a birth parent decides to keep the baby. Developed and sold by San Jose (Calif.)-based Jardine Insurance Brokers' offices nationwide, and underwritten by Fireman's Fund Insurance, the policy is gaining popularity as adoption costs rise and cases such as that of Baby Richard, an Illinois 4-year-old who was returned to his birth parents after a protracted legal battle, draw widespread attention.

Experts estimate that each year, 10% of the nation's 60,000 domestic adoptions fall through. The most common reason: a change of heart by the birth mother or, increasingly, by the father. Jardine says demand for the policy, which became available nationally in 1994, is up 70% this year. Only domestic independent or private adoptions are covered, but Jardine soon hopes to offer coverage for the 8,000 foreign adoptions that take place each year.

Available in 49 states—approval is pending in Virginia—the insurance makes the most sense in areas where medical and legal fees are high and state law does not restrict the amount prospective parents can spend subsidizing birth mothers. In California, for instance, private adoptions can typically cost more than $10,000. For many couples, losing that kind of money means giving up any hope of finding another child. "Many of these people have already paid tens of thousands of dollars for fertility treatments," says Art Adams, the Jardine executive who designed the policy. "They can't afford to take a chance."



LINDA RI

Be careful, though. Adoption insurance is designed to protect the money prospective parents spend on a birth mother's needs—s
as rent, food, medical bi
or counseling. Only 10%
the policy can go towar
adoptive parents' perso
expenses. And the plan
won't pay for a legal fig
keep the baby. Also rem
ber that the policy prot
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option, available for an
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the event of a stillbirth
miscarriage.

Is adoption cov
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pretty expensi
says Robert Hun
director of insuran
for the Consumer F
ation of America. But
John Kozero, a Fireman
Fund spokesman, says t
insurer has been paying
$1.08 in claims for every
premium dollar taken in

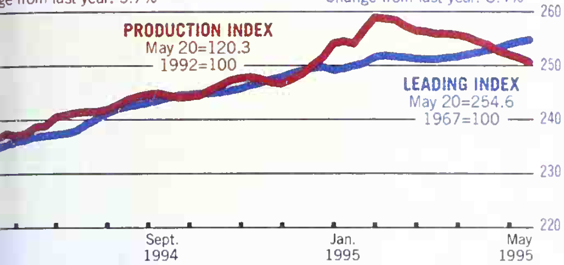
Lawyers warn that e
with adoption insurance
place, spending large
amounts of money on an
potential birth mother is
risky. "Even a woman w
seems absolutely secure
her decision [to give up
child] can change her mi
once the baby is born,"
tions Aaron Britvan, an
adoption attorney in Wo
bury, N.Y. *Nelson Schw*

ısiness Week Index

DUCTION AND LEADING INDEXES

ge from last week: –0.3%
ge from last year: 5.7%

Change from last week. 0.1%
Change from last year: 8.4%



s are 4-week moving averages

duction index continued its slide in the week ended May 20. Before ıon of the four-week moving average, the index rebounded slightly, to from 119.4. Gains in seasonally adjusted output of autos, paperboard, ctric power led the turnaround.

ding index edged up slightly in the latest week, but the unaveraged ell to 254.3, from 255.2. Slower growth in materials prices and real oans offset lower bond yields.

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ING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (5/26) S&P 500	526.62	524.35	15.6
RATE BOND YIELD, Aaa (5/26)	7.51%	7.60%	–5.9
RIAL MATERIALS PRICES (5/26)	113.9	113.7	NA*
SS FAILURES (5/19)	NA	NA	NA
STATE LOANS (5/17) billions	$477.3	$477.9r	11.5
SUPPLY, M2 (5/15) billions	$3,617.0	$3,613.7r	1.2
CLAIMS, UNEMPLOYMENT (5/13) thous.	367	368r	0.0

: Center for International Business Cycle Research (CIBCR), Standard & oody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures :ompanies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on failures and real estate loans. *Historical data available from CIBCR.

EST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
L FUNDS (5/30)	6.07%	5.96%	4.27%
RCIAL PAPER (5/31) 3-month	6.02	6.06	4.60
CATES OF DEPOSIT (5/31) 3-month	5.96	5.99	4.52
ORTGAGE (5/26) 30-year	8.04	8.10	8.68
ABLE MORTGAGE (5/26) one-year	6.03	6.15	5.53
5/31)	9.00	9.00	7.25

Federal Reserve, HSH Associates, Reuters Holdings PLC

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (5/27) thous. of net tons	1,909	1,986#	–2.8
AUTOS (5/27) units	130,872	134,156r#	–3.1
TRUCKS (5/27) units	116,200	126,115r#	1.8
ELECTRIC POWER (5/27) millions of kilowatt-hrs.	NA	58,259#	NA
CRUDE-OIL REFINING (5/27) thous. of bbl./day	NA	14,327#	NA
COAL (5/20) thous. of net tons	19,038#	19,232	–3.5
PAPERBOARD (5/20) thous. of tons	936.5#	885.4r	7.9
PAPER (5/20) thous. of tons	831.0#	845.0r	3.5
LUMBER (5/20) millions of ft.	431.2#	424.7	–11.1
RAIL FREIGHT (5/20) billions of ton-miles	23.7#	23.6	3.0

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (5/31) $/troy oz.	384.300	383.100	–0.5
STEEL SCRAP (5/30) #1 heavy, $/ton	142.50	142.50	16.3
COPPER (5/27) ¢/lb.	135.5	130.3	25.0
ALUMINUM (5/27) ¢/lb.	87.0	84.0	34.9
COTTON (5/27) strict low middling 1-1/16 in., ¢/lb.	108.57	103.04	34.7
OIL (5/30) $/bbl.	18.78	19.75	3.2

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (5/31)	84.43	87.28	105.30
GERMAN MARK (5/31)	1.41	1.44	1.66
BRITISH POUND (5/31)	1.59	1.58	1.51
FRENCH FRANC (5/31)	4.96	5.11	5.67
ITALIAN LIRA (5/31)	1639.5	1672.3	1618.8
CANADIAN DOLLAR (5/31)	1.37	1.36	1.38
MEXICAN PESO (5/31)[3]	6.153	6.045	3.320

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

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ı in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense
1=Western Wood Products Assn.   2=Southern Forest Products Assn.   3=Free market value   NA=Not available   r=revised   NM=Not meaningful

IE WEEK AHEAD

MENT CREDIT

ay, June 7 ▶ Consumers probably out $7.5 billion to their debt \pril. That's suggested by the rease in retail sales for the month. debt exploded by $13.8 billion, st advance in seven months. credit, which includes credit the gain, increasing by $6.7 bil- ırch. Installment debt outstanding amounted to 18.1% of disposable ıear the rate of the highly lever- 1980s. Because the Federal oes not report how much of the rise comes from increased bor- d how much reflects smaller debt ts, it is difficult to tell if the recent debt bulges indicate greater use of credit cards for convenience, or, alternatively, if households are struggling to make the monthly payments on old borrowing.

UNEMPLOYMENT CLAIMS

Thursday, June 8, 8:30 a.m. ▶ New filings for unemployment benefits probably fell back for the week ended June 3, to about 330,000. Claims surged unexpectedly from the end of April through all of May. In the week of May 20, claims stood at 380,000. On a four-week moving average, filings were running at their fastest pace in 2½ years. For the forecast week, the number is expected to fall, because state offices were closed for Memorial Day. Despite a growing economy and booming profits, companies continue to pare their payrolls.

PRODUCER PRICE INDEX

Friday, June 9, 8:30 a.m. ▶ Producer prices for finished goods probably increased by a modest 0.3% in May, according to the median forecast of economists surveyed by MMS International, one of The McGraw-Hill Companies. Prices jumped 0.5% in April, because of rising energy prices. Excluding food and energy, core prices probably rose 0.3% in May, the same as in April. Despite recent runups in commodity prices, inflation at the producer level remains tame. Total prices are up just 2.2% over the past year, and the core rate is running below 2%.

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vestment Figures of the Week

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May 31, the Dow industri-
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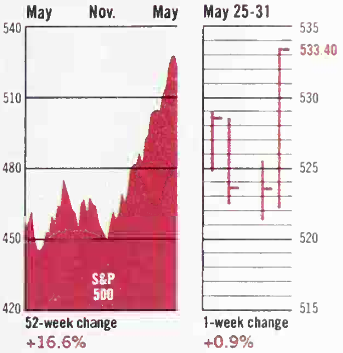
eas, the U.S. markets
p rolling.

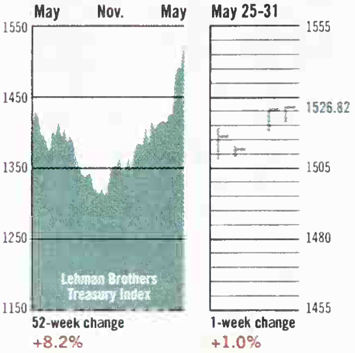
STOCKS



52-week change +16.6%

1-week change +0.9%

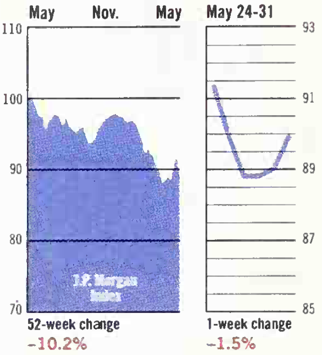
BONDS



52-week change +8.2%

1-week change +1.0%

THE DOLLAR



52-week change −10.2%

1-week change −1.5%

ET ANALYSIS

CKS	Latest	% change Week	% change 52-week
S INDUSTRIALS	4465.1	0.6	18.7
OMPANIES (S&P MidCap Index)	189.9	–0.1	10.7
IPANIES (Russell 2000)	270.3	–0.8	8.1
NIES (Russell 3000)	302.2	0.6	14.6

STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
INANCIAL TIMES 100)	3319.4	–0.2	13.2
KEI INDEX)	15,436.8	-3.3	-26.7
TSE COMPOSITE)	4448.6	0.2	3.7

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.80%	5.83%	4.25%
30-YEAR TREASURY BOND YIELD	6.65%	6.74%	7.38%
S&P 500 DIVIDEND YIELD	2.51%	2.55%	2.80%
S&P 500 PRICE/EARNINGS RATIO	16.4	16.3	20.2

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	479.3	477.9	Positive
Stocks above 200-day moving average	68.0%	69.0%	Neutral
Speculative sentiment: Put/call ratio	0.71	0.69 r	Positive
Insider sentiment: Vickers sell/buy ratio	1.23	1.26	Positive

BLOOMBERG FINANCIAL MARKETS

TRY GROUPS

TH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
JILDING	15.3	6.2	PULTE	21.4	12.9	26¼
ASTING	10.3	11.9	CAPITAL CITIES/ABC	13.6	29.0	96
CENTER BANKS	8.0	14.6	BANKERS TRUST NEW YORK	14.8	–10.3	62¼
REGIONAL BANKS	7.9	4.4	BANK OF NEW YORK	22.4	35.3	40¼
	6.7	–22.9	U.S. HEALTHCARE	15.4	–22.0	30⅞

TH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
TIME	–9.7	–13.7	BRUNSWICK	–14.0	–25.4	18⅜
CTURED HOUSING	–8.5	–2.0	FLEETWOOD ENTERPRISES	–10.3	–2.4	20⅝
CONTAINERS	–6.6	–2.3	STONE CONTAINER	–17.0	10.9	16½
ERING AND CONSTRUCTION	–5.7	–12.7	MORRISON KNUDSEN	–31.8	–74.3	5⅜
IG	–5.6	–25.5	CONSOLIDATED FREIGHTWAYS	–8.3	–9.2	23⅜

AL FUNDS

MORNINGSTAR INC.

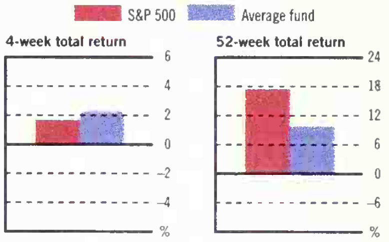
total return	%
STMENT PACIFIC BASIN EQUITY	12.6
STANLEY ASIAN GROWTH A	12.4
STANLEY INSTL. ASIAN EQUITY	12.3

tal return	%
N COMMUNICATIONS & INFORM. A	78.1
SELECT ELECTRONICS	57.9
E TECHNOLOGY A	57.4

LAGGARDS

Four-week total return	%
DFA JAPANESE SMALL COMPANY	–7.2
JAPAN	–6.2
CAPSTONE NIKKO JAPAN	–5.5

52-week total return	%
MONITREND GOLD	–37.1
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–35.3
STEADMAN AMERICAN INDUSTRY	–33.8



IVE PORTFOLIOS

ORI/McGRAW-HILL

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tal returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$11,765	$11,675	$11,283	$10,524	$9,952
-0.01%	+2.46%	+3.80%	+0.17%	+1.10%

is page are as of market close Wednesday, May 31, 1995, unless otherwise indicated roups include S&P 500 companies only; performance and share prices are as of market close May 30. Mutual fund returns are as of May 26. Relative portfolios are valued as of May 30. A more detailed explanation of this page is available on request. r=revised NA=Not available

A FLAT TAX THAT AMERICA MIGHT BUY

Bet you can't guess how much it costs Americans to file their taxes. The tax code has become so complex (3,458 pages) and so intrusive (the Internal Revenue Service gets more than 1 billion Form 1099s annually to track interest, dividends, and other forms of business income) that the cost of compliance can be measured in billions of hours and billions of dollars. Individual Americans, including the self-employed and the owners of small businesses, spend about 2.1 billion hours each year to do their taxes, while big corporations take a bit longer—3.6 billion hours—to pay their corporate income taxes, according to economists James L. Payne and Arthur Hall. Dollar cost? About $57 billion for individuals and $175 billion for companies. Then, of course, there is the cost of maintaining the small army of government tax collectors—$13.7 billion for 136,000 IRS and other federal agents.

No wonder the drumbeat for a flat tax or some version of a consumption tax is getting louder and louder in Washington. The current tax system has serious problems. It does have a high level of compliance, but it is convoluted, opaque and open to manipulation by special interests. Even the ongoing effort to cut taxes is rife with examples of special-interest lobbying. Social conservatives want a $500 children's tax credit to bolster the family, investors and high-tech startups are pumping for a capital-gains rate cut, Wall Street is championing an IRA-type savings account, and there is even a tax credit for people who adopt. All worthy causes, yet each one further complicates an already arcane tax code and reduces the overall efficiency of the economy.

NO SMOKE AND MIRRORS

Better to simplify. Simplifying the tax code accomplishes two goals. First, it permits the markets to operate more sensibly—boosting growth and jobs—by removing government from the economic decisions of businesses and citizens. Income would be taxed at the same rate no matter what its source, and debt and consumption would no longer be encouraged. Second, tax simplification removes social engineering enacted through the tax system. Political choices become more transparent and accountable. The true cost of government programs becomes much clearer.

The logic of simplification has bred a raft of proposals, some better than others. The current favorite appears to be the radical single-rate flat tax of Representative Richard K. Armey (R-Tex.) that would levy one 17% tax on businesses and individuals, with no deductions or credits. Meanwhile, House Ways & Means Chairman Bill Archer (R-Tex.) favors a national sales tax, perhaps in the form of a value-added tax, which levies taxes on each stage of production. Then there is the more complex USA consumption tax designed by Senate Budget Committee Chairman Pete V. Domenici (R-N. M.) and Senator Sam Nunn (D-Ga.). A less radical Democratic proposal, a son-of-1986 Tax Reform, would close loopholes and lower all tax rates at the same time.

We favor a modified flat tax that would flatten the rate structure into two or three rates and preserve deductions for home mortgage interest contributions. Here's our thinking: Europe has had a VAT in place for decades, and it has become a bureaucratic nightmare, with exemptions that reflect all kinds of social-engineering policies—exactly what the U. S. wants to reverse. Since America already has an income-tax infrastructure in place that people are accustomed to, it's more efficient to streamline it, use it, and not build another one. That way is just simpler.

We also favor making one big political compromise with economic efficiency by allowing deductions for mortgage interest to stand. It is politically unrealistic to believe that Congress would end this deduction for middle-class homeowners. And estimates of the possible loss from fully eliminating the deduction range as high as 15% to 20% of the value of the nation's homes. That adds up to a loss of up to $1 trillion in householders' net worth, the main source of personal savings. These amount to strong arguments for keeping the mortgage deduction but capping the deductible amount of the mortgage at $200,000. Totally eliminating the mortgage deduction would be highly deflationary, not only in terms of actual asset values but psychologically as well.

FOUND MONEY

The flat tax is also economically neutral, while consumption taxes along the lines of the Nunn-Domenici bill favor investment. The tax system should favor nothing. Better to let individuals and families decide how they want to spend their earnings and let the markets determine investment flows.

Finally, by using two or three rates and exempting incomes of, say, up to $36,000 for a family of four, a flat tax can be designed so that it doesn't fall too heavily on the poor. Most flatteners agree that the poor should be totally exempt. In the 1980s, former Representative Jack Kemp (R-N. Y.) and former Senator Robert W. Kasten (D-Wis.) suggested a plan with two brackets—20% on wages and salaries and 25% on other income—that also preserved deductions for home mortgages and charitable contributions. Senator Bill Bradley (D-N. J.) and House Minority Leader Richard A. Gephardt (D-Mo.) came up with a plan with three brackets: 14%, 26%, and 30%. Both plans tried to lower the rates and broaden the tax base while making the tax system more neutral than it is now.

The U. S. was headed in the right direction under Ronald Reagan with the Tax Reform Act of 1986. Unfortunately, policy reverted under both Republican and Democratic Administrations. Tax simplification is an economic and social benefit. It's a wonderful chance to do three things: promote growth while cutting the government, permit individuals and businesses to make economically clean decisions, and give back to Americans billions of hours and tens of billions of dollars that they would otherwise spend on preparing their taxes. Now, that's a sweet springtime thought, isn't it?

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The babies take Mom's and Dad's outburst in stride.

Tayler and Tyler may be wondering what the jubilation is about. Toni and Keith know. They're new parents. Of two babies. But it's even more than that. The pregnancy was a tough one, almost as hard on Dad as it was on Mom. So being on the Baby side of it is quite an accomplishment.

Their savings made it through, too, even with lots of travel from their farm to a hospital far away (in South Dakota, most things are far away) and lost wages and intensive care.

In plain language, their AFLAC insurance helped stop the money from flowing out of their pockets through holes in their health coverage. The Halls, old and new alike, are doing just fine.

So here they all are, happy, healthy and over it. (Except for the matter of diapers.) Hallelujah!

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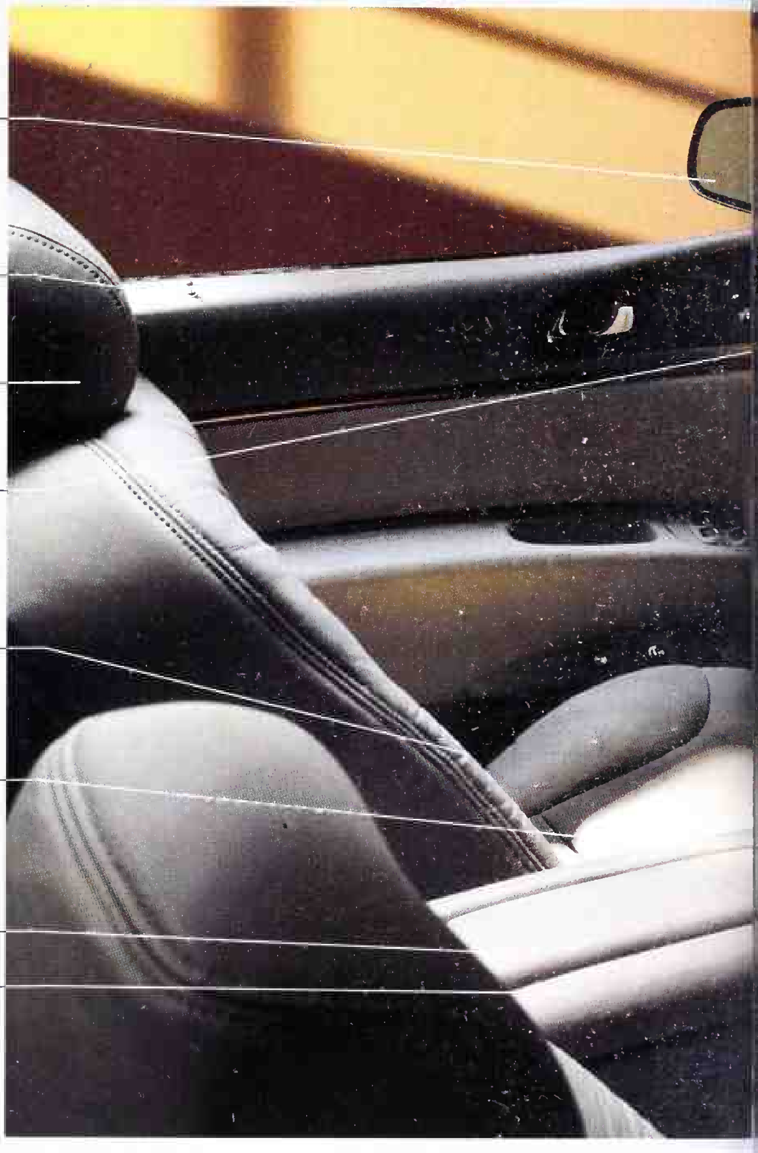

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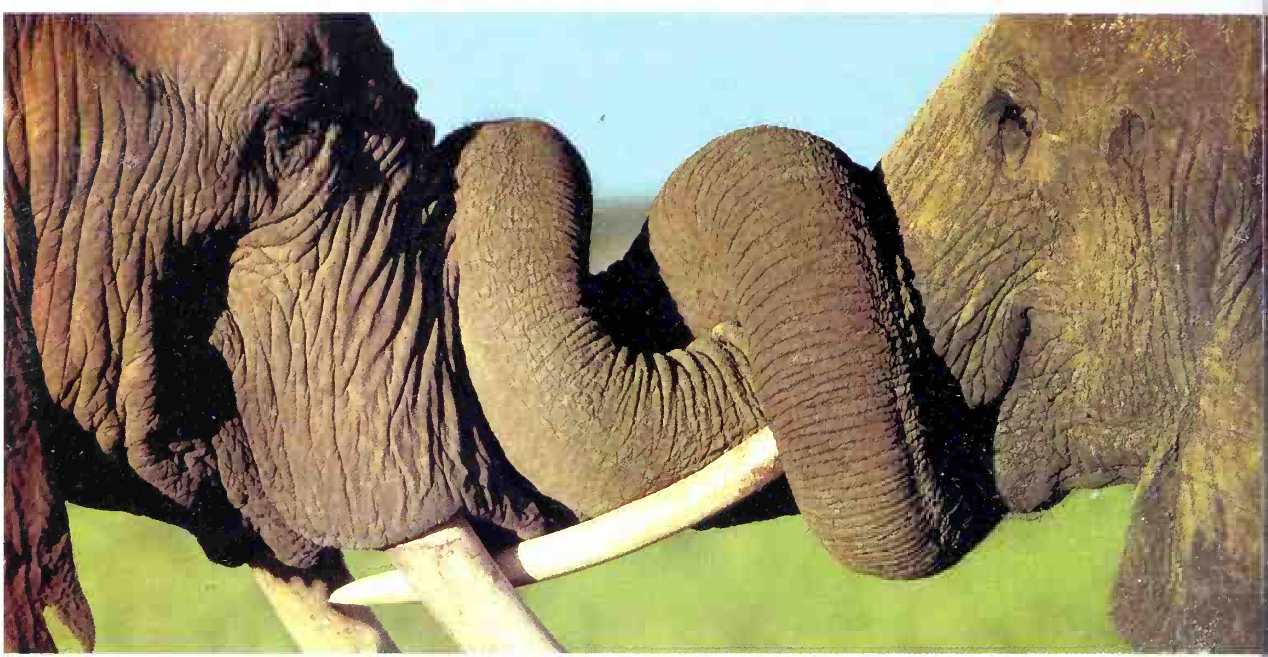
LINCOLN
What A Luxury Car Should Be



Elephants strike up an acquaintance by intertwining their trunks. It's both a greeting and a way of sizing each other up.

Nothing is more natural than the desire to make personal contact. Even elephants have evolved numerous types of behavior to ensure the cohesion of the group as well as maintain mutual respect.

Good relationships need careful nurturing. We call our approach "Total Customer Care."

Recognition of this fact forms the basis of our primary challenge for the future. We call it "Total Customer Care." Any company that wants to stay successful in the highly competitive global marketplace cannot afford to rely on the quality of its products alone. In the future our customers' requirements will be at the forefront of everything we do – even more than before. This means that we have to be flexible, and that we need a coordinated approach and an attentive ear to what our customers have to say to us. If you'd like to know more about the Schott Group of companies, write to: Schott Corporation, Dept. BW 1, 3 Odell Plaza, Yonkers, NY 10701. Maintaining our position as **a leader in special glass** is not enough. Our goal is to be a leader in customer orientation – **finding ways to take our customers further.**

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SPECIAL MIDYEAR OUTLOOK

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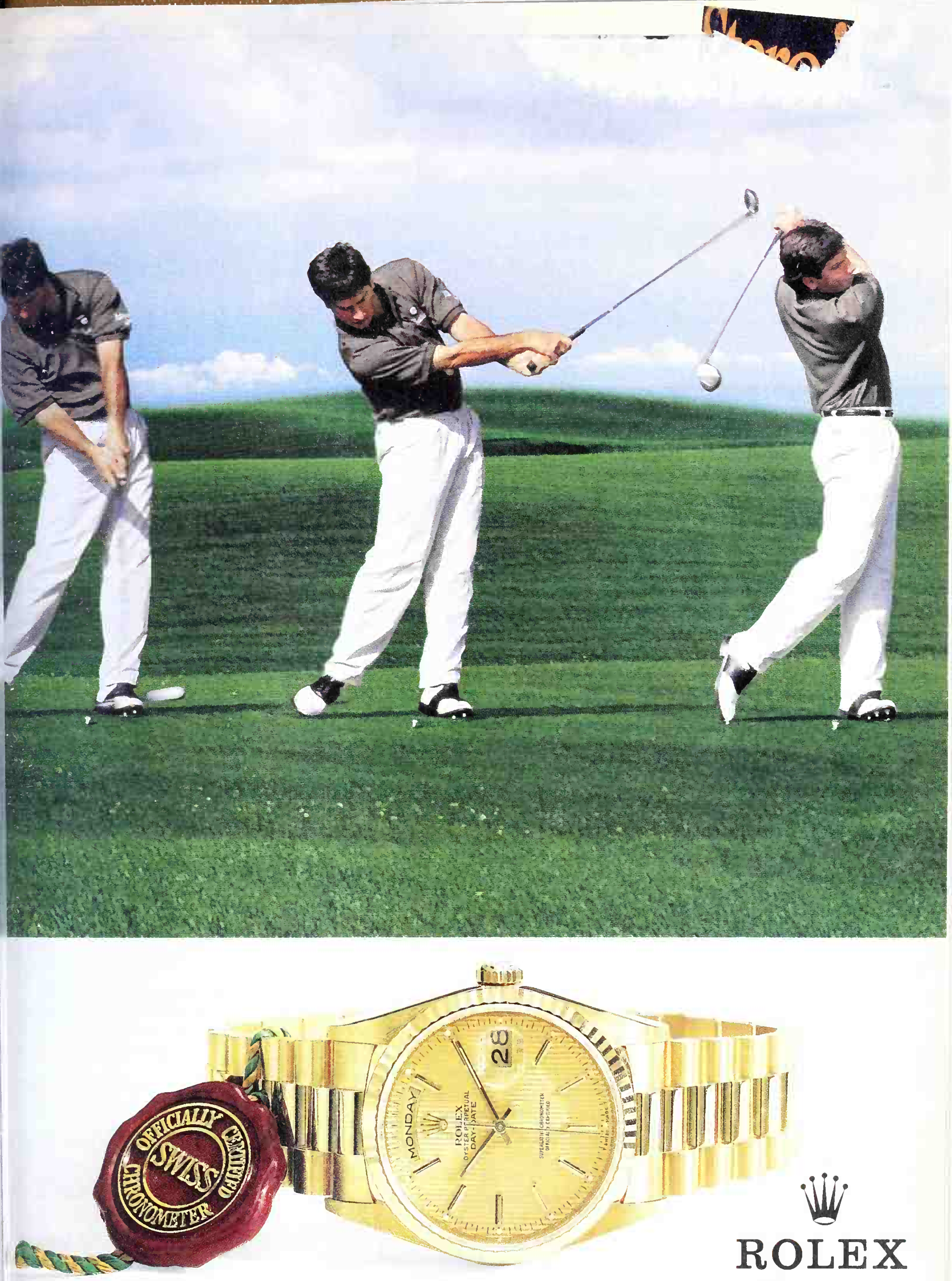
"Basically my swing hasn't changed since I was a kid.

Fred Coupl

Since joining the professional tour in 1980, Fred Couples has dazzled the golfing public with his immense natural talent for the game. Employing a wonderfully rhythmic swing that seems to involve little more than lifting the club and dropping it on the ball, Couples produces a startling combination of power and finesse.

"Fred's swing mirrors his personality, which is totally relaxed and effortless," sa sportscaster Jim Nantz.

Couples has captured the imaginati of the golfing public by achieving t highest level of performance while stayi faithful to a style that is all his own. N surprisingly, he has chosen a timepie whose performance and style are just impressive. Rolex.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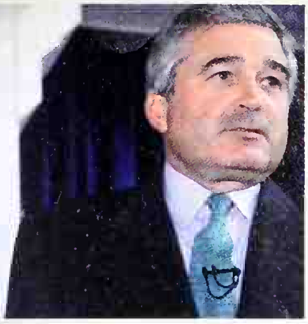

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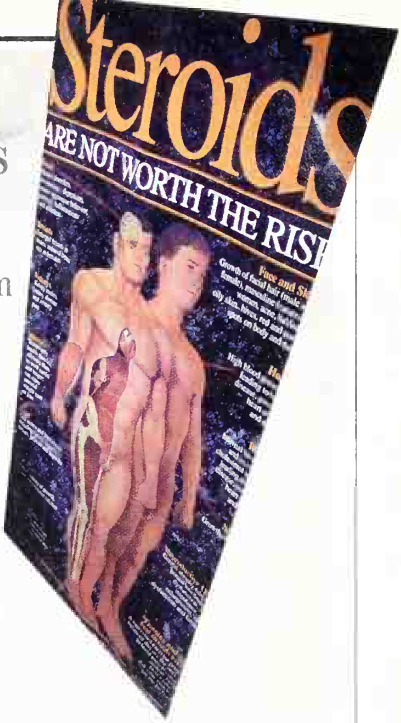

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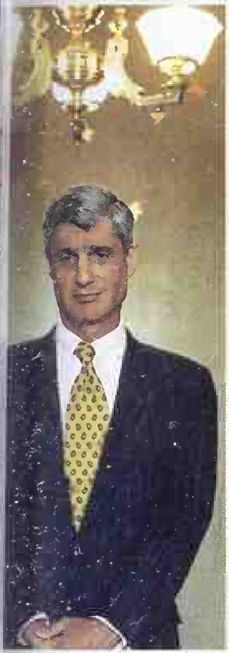

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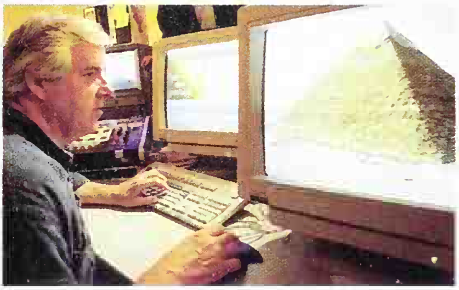

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

HONCHOS

GRACE KEEPS ON AMAZING

DID THE RECENTLY OUSTED CEO of W. R. Grace & Co., J. P. Bolduc, fire a whistle-blowing accountant who questioned his ethics? In a recently filed federal court suit against both Bolduc and the company, a former Grace auditor says he alerted a few Grace board members that Bolduc may have improperly awarded a Grace contract to a construction outfit the ex-CEO had ties to.

BOLDUC: *Conflict?*

Norman Eatough, a 25-year Grace employee who seeks reinstatement and back pay, claims he was canned as audit chief in June, 1994, after telling the board's audit committee about Bolduc's potential conflict. A source close to Grace tells BUSINESS WEEK that this involved the contract to build a new $92 million plant in Milwaukee for 79% Grace-owned Ambrosia Chocolate. The work went to J. A. Jones, based in Charlotte, N. C., on whose board Bolduc sits. The source adds that Ambrosia President John Timson fought the Jones selection but was overruled by Bolduc. There was no comment from Ambrosia or from Jones.

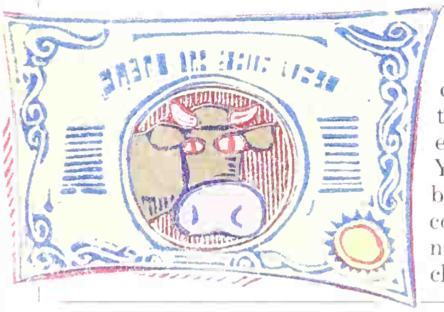
After a falling-out with the Grace family, Bolduc was forced to resign in March amid allegations of sexual harassment. Through an attorney, he denies all allegations, including Eatough's. Grace says the whistle-blower suit is without merit and insists Eatough's dismissal was "valid."

Ambrosia Chocolate is no stranger to controversy. Cannibalistic serial killer Jeffery Dahmer once worked at the company. *Elizabeth Lesly*

TRADING PLACES

MILK FUTURES: A SOUR IDEA?

AH, NATURE'S MOST NEARLY perfect contract. The Chicago Mercantile Exchange and New York's Coffee, Sugar & Cocoa Exchange are seeking Washington's approval for competing futures contracts on fluid milk. Until now, milk prices had little need for hedging—or potential for speculation profit. Federal supports and other regs maintain a price floor. But budget-cutting may remove all this. So some dairy companies, including giant co-op Land O' Lakes, back milk futures.



Others in dairyland, however, are sour on the notion. "There's not a need," contends Howard Dean, CEO of Dean Foods, the No. 1 U. S. milk processor. Unlike soybeans, milk cannot be stored more than a few days. Don't expect a long-lasting New York-Chicago milk-futures bout. In past head-to-head competitions, most business went to one exchange. *Greg Burns*

TALK SHOW "It wasn't very long ago that Letterman v s making fun of executives at NBC instead of me."

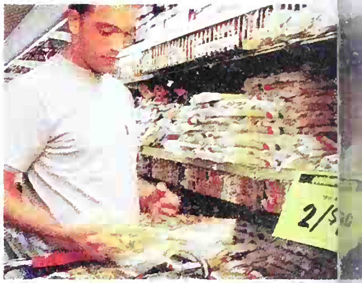
—Peter Lund, CBS Broadcast Group chief, telling affiliates h bottom-ranked network would turn itself around, as NBC did

FOOD FIGHTS

SPAGHETTI WESTERN: THE PASTA SHOOT-

AMERICAN PASTA MAKERS are accusing Italian importers of dumping. Result: Punitive tariffs may be on the way, hiking prices drastically for such Italian brands as De Cecco, La Molisana, and Barilla. Three U. S. pasta potentates—Borden, Hershey, and Gooch—have filed a complaint with the Commerce Dept., accusing 50 Italian rivals of taking government subsidies from Rome to undersell the Americans. If Commerce concurs, as expected, the tariffs could hit by yearend.

While it lacks the drama of the multibillion-dollar U. S.-Japan face-off over autos, the pasta flare-up has a special acrimony. In late April, Canada closed its borders to Italian pasta. Imports account for only 6% of the $3.9 billion U. S. pasta market, but are rising 11% yearly, wit capita consumption record 20 pounds. The ians are looking for ove expansion because cons

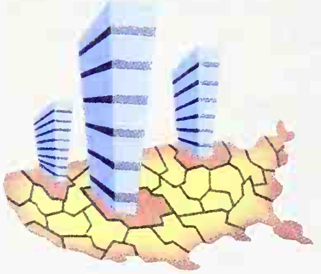


SHELL SHOCK: *Prices are in pe*

tion has topped out at (60 pounds).

The Italians, who den dumping charges, gripe U. S. producers want th the growing American ket for themselves. How ic, they sniff, that Ame pastas are given Italian n and sport Italian flags o package. *John Ro*

THE LIST LOCATION, LOCATION...



HOW STATES RATE FOR BUSINESS

The West is best for business, says a study by the Corporation for Enterprise Development, thanks to such things as abundant resources. Exception: California, with its mediocre 2.0 grade. The study measures several areas, averaged and ranked here. At the bottom are mainly Southern states, where low incomes are a hindrance.

TOP SIX	SCOR
COLORADO	4
IDAHO	3
MINNESOTA	3
DELAWARE	3
OREGON	3
UTAH	3

BOTTOM SIX	SCOR
MAINE	1
OKLAHOMA	1
KENTUCKY	0
LOUISIANA	0
ARKANSAS	0
WEST VIRGINIA	0

*Grade point average of letter grade (A to F) in three areas: economic per formance, business vitality, and dev opment capacity

DATA: CORPORATION FOR ENTERPRISE DEVELOPMENT

Stop driving yourself [ ].

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How does it make you feel?
In today's up and down market,
it could drive anyone nuts.
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Fifty dollars. →
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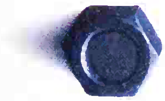

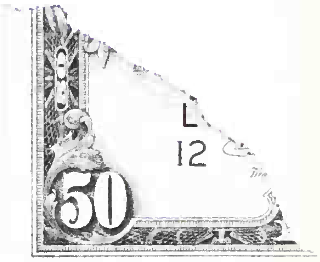

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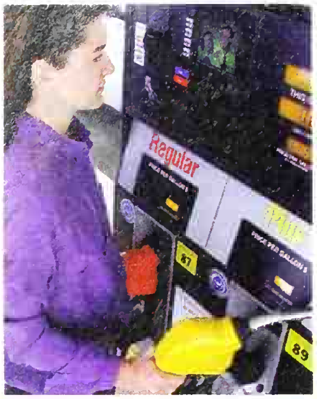
[$17 billion in assets]

Up Front

PRODUCT PEEK

ONE MORE PLACE YOU CAN'T ESCAPE ADS



TESTING: *Video pump pitch*

ADS HAVE INVADED MOVIE theaters for years; now they're coming to gas stations. Gilbarco, one of the leading gas-pump makers, is experimenting with 6-inch screens, currently installed at 27 fill-up islands nationwide, beaming commercials at nozzle-gripping motorists.

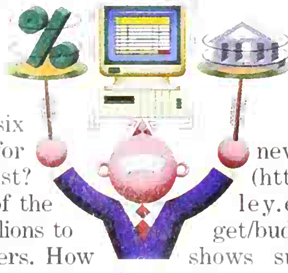
Mostly, these captive audiences are being pitched stuff the station sells, from candy bars to car washes. After the ads, a menu of merchandise pops up on the screen for you to enter your selection. You pay at the pump with a credit card for the gas and other goods.

Gilbarco, a unit of Britain's General Electric PLC, has no reports of driver disgruntlement at getting bombarded by ads. But that may change in a few months when the company rolls out the videos nationally, hoping for deals with the major oil companies. Remember the booing that greeted the first ads to hit movie screens?

Stations with these gizmos don't have to show ads. Andrea Kleopa has been treating customers at her Shell station in Miami to sports programs and CNN at the pump. However, since it costs $31,000 for a video-equipped pump (vs. $12,500 for a regular one), Gilbarco thinks most owners will stick to commercials. ☐

I-WAY PATROL

IF YOU'RE SO SMART, YOU CUT THE DEFICIT

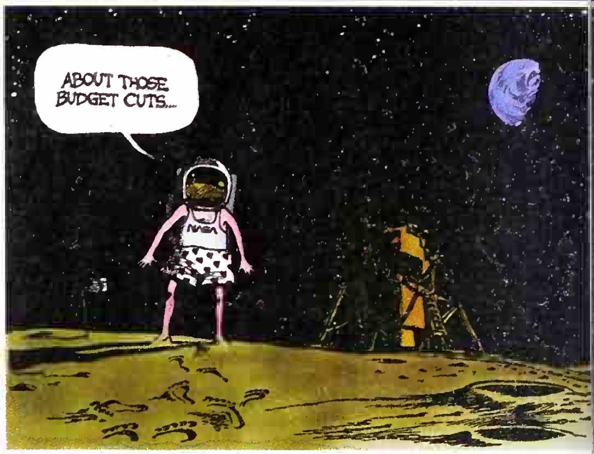


NOW YOU, TOO, CAN BALANCE the federal budget—without lobbyists, demonstrators, and other such democratic distractions. A new simulation game has just come online via the Internet's World Wide Web, allowing fiscal-minded folk to tinker on their PCs with $1.4 trillion in U.S. outlays.

Want to deep-six tax deductions for mortgage interest? Done in a click of the mouse, adding billions to Uncle Sam's coffers. How about beefing up the military? Click. At the end, the system congratulates you if you balance the budget. Actually, it's O.K. to be off by $10 billion, which is peanuts, of course. If there's a big surplus, you get warned that taxpayers will demand a refund. If a deficit still exists, the system says: "Oops."

The game, which began on May 30, is a civics lesson courtesy of the University of California at Berkeley's Center for Community Economic Research. The Center's new Web page (http://garnet.berkeley.edu:3333/budget/budget.html) also shows successfully balanced budgets that others have run through the simulation. According to Web tracking software, 1,200 users have hooked up to try their hand with an ax—one from the White House. *John Verity*

DRAWN & QUARTERED



OVER THERE

DISNEY'S PLAN TO TERRIFY EUROPE

AILING EURO DISNEY HAS A new thrill ride aimed at turning around its theme park by luring thus far elusive teen visitors. The white-knuckle Space Mountain ride just opened amid a massive promotion campaign. Analysts say the ride—a scarier version of the Space Mountains at Walt Disney's U.S. parks—is a make-or-break vehicle that will determine if Euro Disney survives.

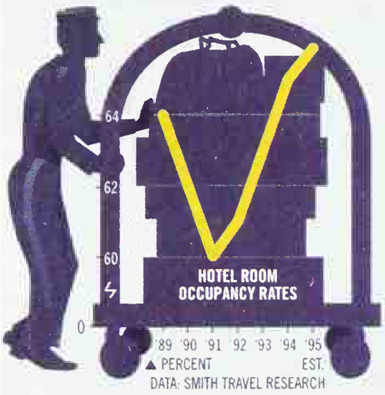
The $120 million ride seems to have the right stuff for teen thrill seekers. You experience weightlessness, hurtle past meteors, flip upside down, and corkscrew in eerie silence through space—all in the dark.

MAGIC KINGDOM? *Just be p*

That's a lot like Eur ney's three years of c tion, which have seen million in losses. Space Mou tain is part of a revam that has led the compa rename the park (from Disneyland to Disne Paris), slash ticket p 20%, and postpone deb se vice. Attendance and Disney stock lately started to nudge up, bu ride isn't over. *Stewar*

THE BIG PICTURE

LESS ROOM AT THE INN



The glut of U.S. h rooms, due to 198 overbuilding, deal the lodging indus a blow in the early 1990s. But with increases in busin and pleasure trave lately—and little new construction occupancy rates have rebounded smartly. So hotel profits are up sha (25% in 1994).

FOOTNOTES Americans who did fitness walking in 1994: **36 million** (up **54.2%** since 1987); who jogged: **33 million** (up 9

(CLOCKWISE FROM UPPER RIGHT) CARTOON BY STEVE BENSON/UNITED FEATURE SYNDICATE/ARIZONA REPUBLIC, SITTLER/REA/SABA, CHART BY ROB DOYLE/ BW, ILLUSTRATION BY JOSE CRUZ

at do I look for in a computer?

I look for a difference.

For a better way of working.

A better way of doing.

I look for software I can use.

Without a pile of manuals.

ok for hardware I can set up.

ithout calling tech support.

I look for power today.

And potential tomorrow.

I look for a symbol.

A sign.

I look for this.

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1 in a series

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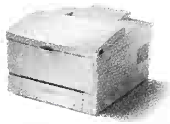

Plug and Play. It's a revolutionary concept pioneered by Apple. And promised by many. The difference is, with the Mac OS, you actually get it today. So when you want to connect to a network or set up a printer or a CD-ROM drive or any of hundreds of other peripherals and accessories, all you have to do is plug it in and get right to work. Or play. It's that simple.

What exactly is multimedia? Use a PC running the Mac OS and it's anything you want. You can add music, motion and magic to presentations, school reports, memos and more. You can edit videos. Watch TV. Or run the hottest new multimedia titles.

CLARIS
ClarisOrganizer
MYST

No matter what you want to do, Mac OS helps you do it. How? By providing a consistent way to work with everything you buy. From business software and home finance packages to educational titles and jazzy new games—thousands of powerful (and fun) applications run under Mac OS.

Used to be, the only way to get your hands on the Mac OS was to get your hands on an Apple® Macintosh. Today, you'll find it on PCs from Radius, Power Computing and more. The same places, in fact, where you'll find our new logo. For more information, call **800-472-4342, ext. 100**, today. Or contact us via the Internet at http://www.info.apple.com/macos/macosmain.html.

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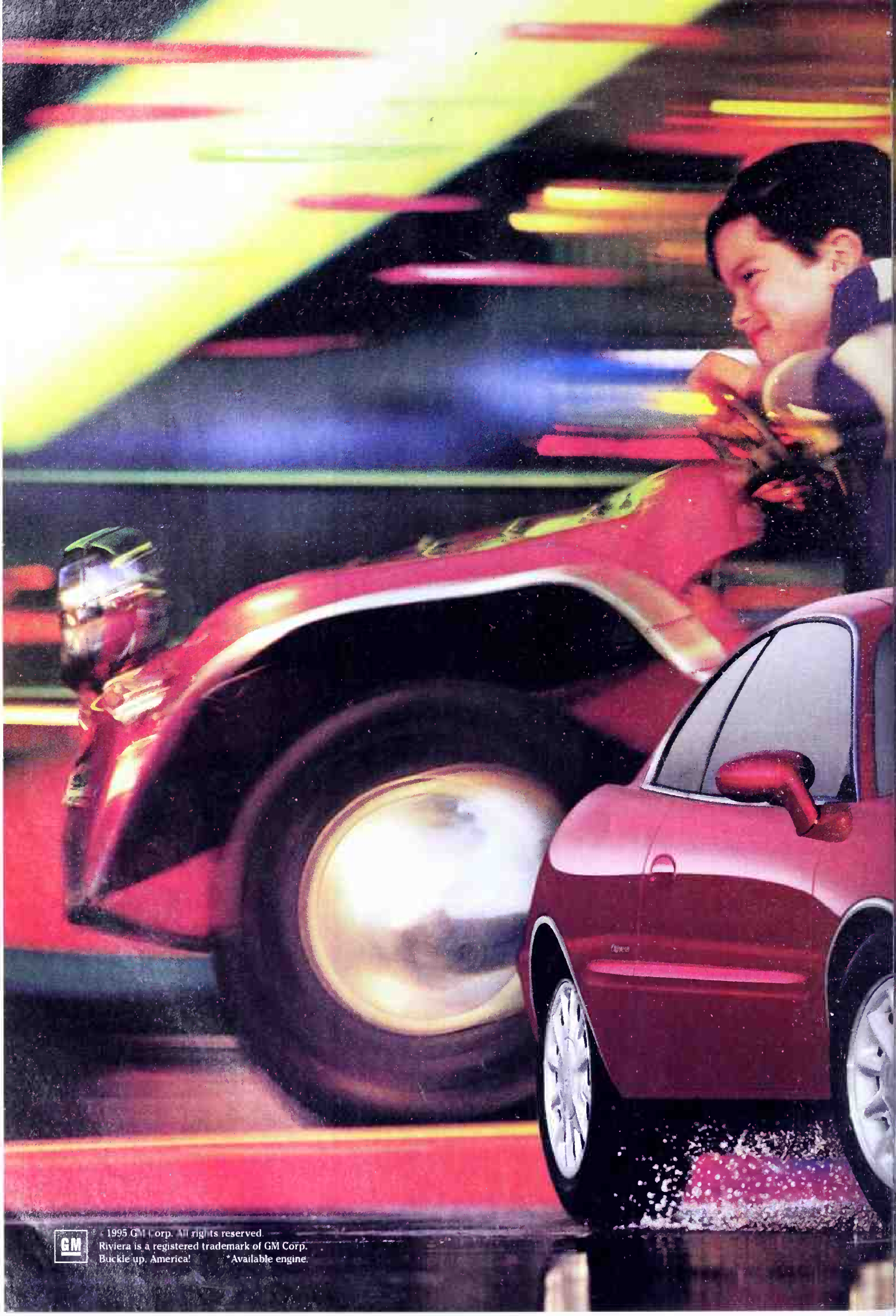

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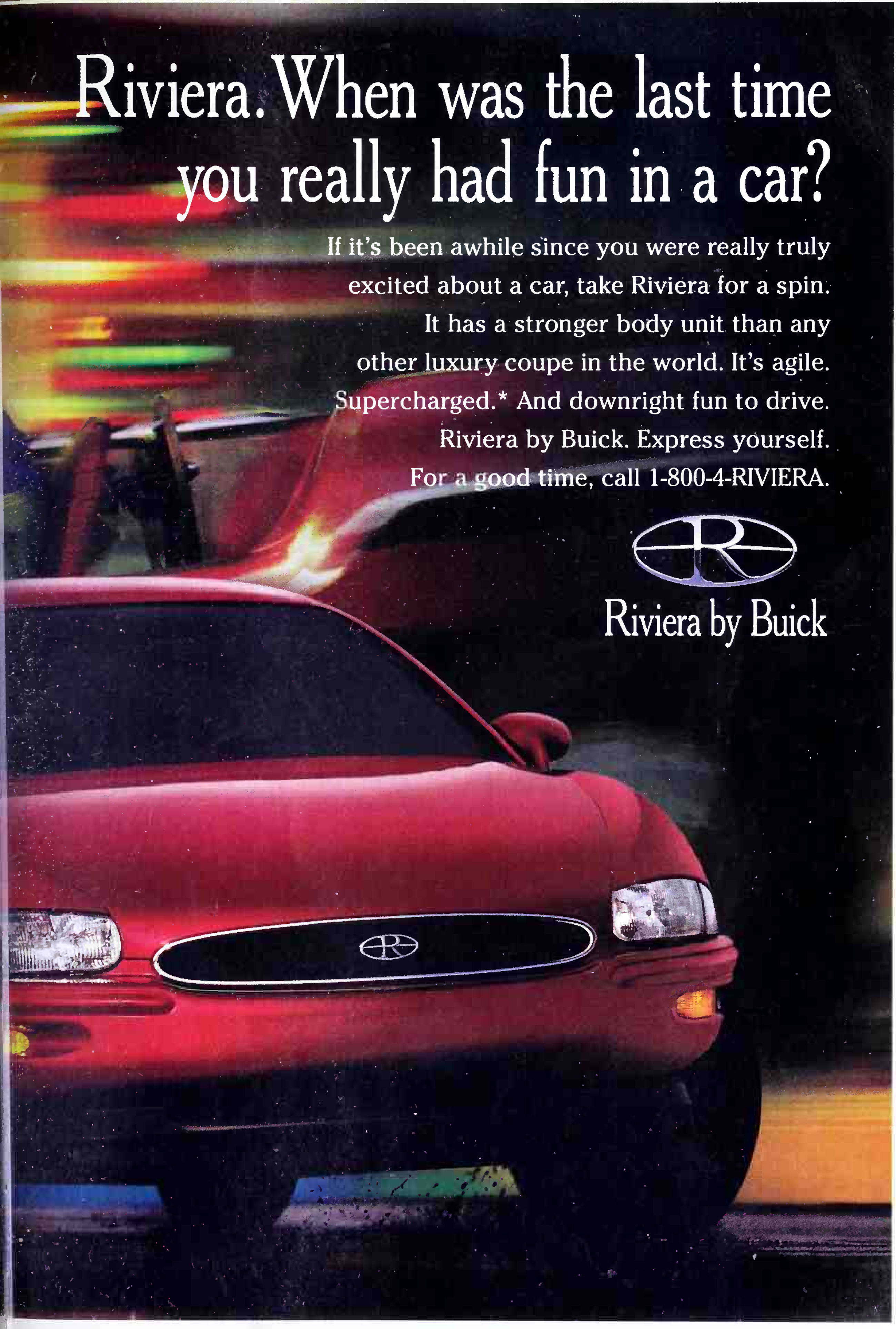
Buckle up, America! *Available engine.



Riviera. When was the last time you really had fun in a car?

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Readers Report

PUTTING THE RIGHT FACE ON GRACE

"Fall from Grace" (Cover Story, May 29) paints a grossly incomplete picture of J. Peter Grace.

Yes, in fighting for the survival of the company founded by his grandfather, Peter Grace had to scramble for the right mix of businesses to propel W. R. Grace into its second 150 years. But all the businesses that Wall Street fell in love with under J. P. Bolduc's recent restructuring were built by the CEO who provided visionary and entrepreneurial leadership for five decades.

Frederick E. Bona
Former Vice-President
Corporate Communications
W. R. Grace & Co.
Boonton Township, N. J.

DOW CORNING: FROM CLASS ACTION TO BOYCOTT?

The lawyer from Dow Corning Corp. looked very smug and self-satisfied in "On the firing line at Dow Corning" (News: Analysis & Commentary, May 29). But when he threw a monkey wrench into a commitment made to 400,000 women who are participating in the class action, he perhaps forgot to consider the business ramifications of alienating these women and their families and friends. We will be able to track both the business and its different products through any reorganization. The boycott that will result will amaze even the most astute lawyers and business managers of the company who are so pleased with their recent action.

Sue Mack
Corrales, N. M.
Suesky@aol

THIS TRADE WAR ISN'T WORTH THE BLOODSHED

Your Commentary, "Even if Japan breaks down, Detroit won't win much" (International Business, May 29), seems out of touch with the realities of U. S. automotive-parts manufacturers.

In a survey of over 2,300 U. S.
facturer suppliers, more than two-
said that exporting to Japan was
tle or no interest to them. And
said that they had little or no inter
making an investment in Japan i
duction or warehousing facilities
effort to serve that market.

Clearly, the large multinational
manufacturers are anxious to in
their penetration in Japan's ori
equipment market, but these pr
would be supplied from their pr
or future plants in Southeast Asi

So why are we risking a major
war over this issue? It simply
the influence of a few politically m
ed organizations.

William A. R
Pinehurst,

Editor's note: Raftery is president
itus of the Motor & Equipment
facturers Assn.

THE SQUABBLE OVER LONDON SKIES

American Airlines' position i
U. S.-U. K. aviation discussions wa
fairly characterized in "The second
tle of Britain" (Up Front, May 15

American Airlines would like
ing better than to be able to co
across the North Atlantic using ou
ployees and aircraft in the interna
marketplace. We are not interest
maintaining restrictions. Our prefe
would be that all carriers compe
an open-skies environment. The
minideal discussed would do nothi
enhance U. S. carrier competitiv
in the U. K. market. It is for this
that we oppose the deal.

Edward P. Fabe
Vice-President, Government A
American Ai
Washi

BRINGING THE HYBRID BACK HOME

Regarding "A modern garden
grandma's seeds" (Personal Bus
May 22), it is true that many hy

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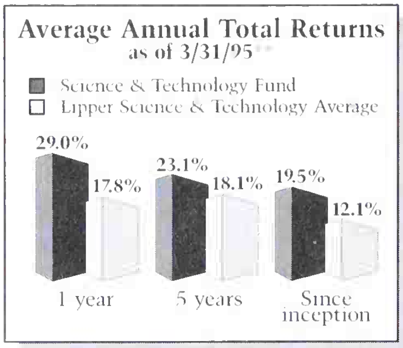

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were developed to meet the nee
commercial growers. Walk throug
produce section of your superm
and try to imagine what it would
like without the great improve
brought about by selective breedin
hybridization: There would be no
year-round fresh strawberries and
coli. No more iceberg lettuce w
signs of brown rot.

Beyond that, look at all the h
seeds offered in the garden seed ca
They bring disease-resistant cro
the backyard grower and make i
sible for so many of us to practic
pesticide organic gardening. The
loom plants have their place, and h
grown them in the garden and
orchard, but they do require extr
and greater use of pesticides to
imize their potential. I do not se
as an advantage.

Norman J. S
North Garde

BOYS CAN VACUUM, TOO

In "A child's garden of soft
(Personal Business, May 29), yo
cuss "one of the few programs ai
girls," which includes "a vacuum
cleans up messes."

That you would allow such a bl
ly sexist statement to be publis
beyond my understanding.

Do any of you have daughters

Michele
Canon City,

AT MORRISON KNUDSEN, SOME THINGS AIN'T BROKE

Your story "Why 'Mr. Spud' is
Morrison Knudsen" (News: Analys
Commentary, May 29) was inter
but somewhat overblown.

We took exception to the notio
MK "could use some strong ma
ment." We have it, under the fir
leadership of Chairman Steve
who played an instrumental r
Chrysler's turnaround, and CE
Tinstman, an MK veteran. Our ma
ment is embarked on an aggr

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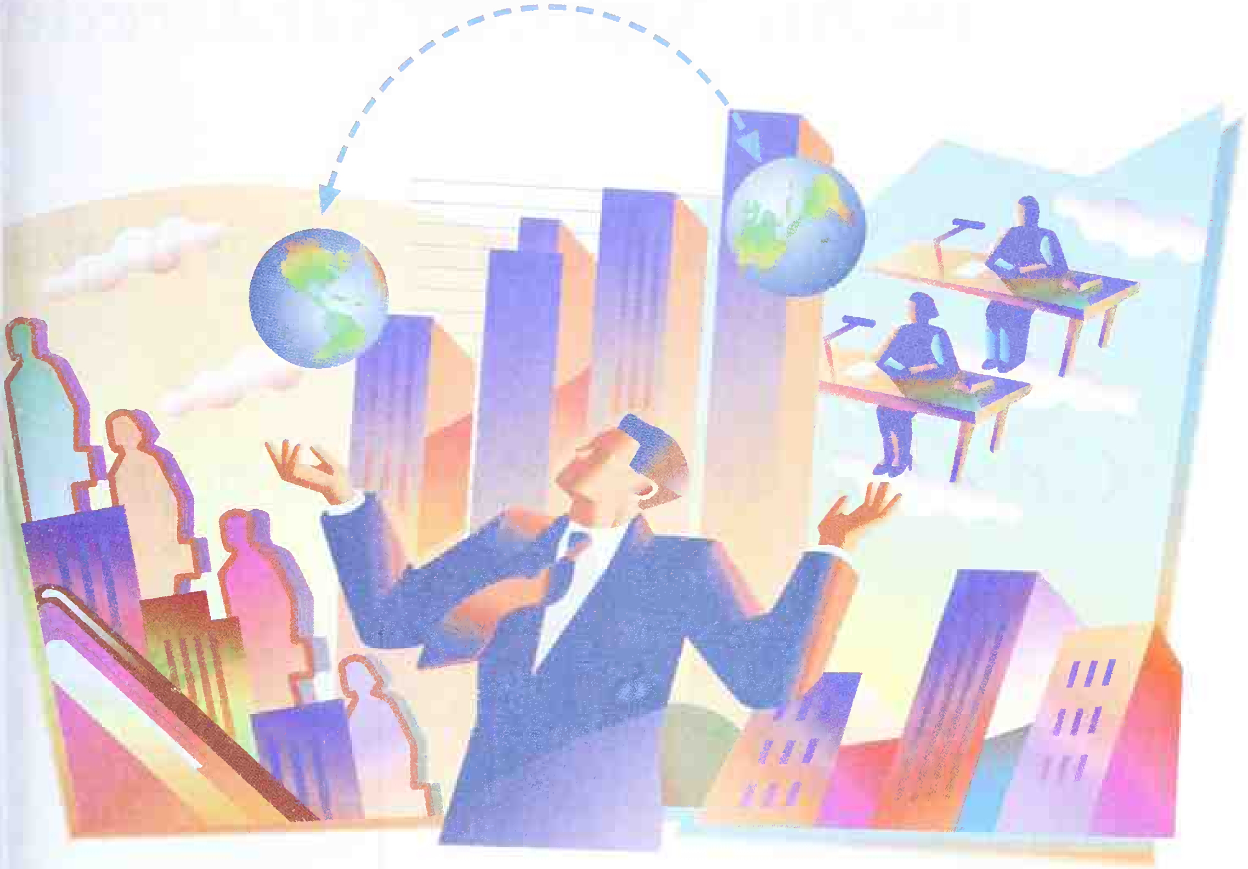

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Management Recruiters

CompuSearch

OfficeMates 5

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Card~Sized Phones, Perhaps

Credit Card~Sized Expense M

management tool? Certainly, if the credit card in quest

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Readers Report

turnaround plan designed to divest
of noncore businesses and pay
short-term debt, while it continue
cessfully to pursue opportunities
core business segments.

There remains a significant a
of work to be done in order to tur
company around. Fortunately, the
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not an issue.

Brent D. Br
Vice-Pre
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Morrison Knudsen
Boise,

SENIOR CITIZEN: 'I AM ASHAMED'

I agree with your article "Victi
the golden years" (News: Analy
Commentary, May 22).

I am tired of listening to electe
cials use glib rhetoric to avoid t
responsibility for the jobs they
elected to do. I am ashamed, as a s
citizen, when the national budge
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And I am frustrated by the "me
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participate in the "entitlement f
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Medicare.

Once upon a time, the Ame
Dream was to prosper and prov
better life for our children. Now,
clearly to receive more from so
than we contribute.

William G. Isher
Auburn,

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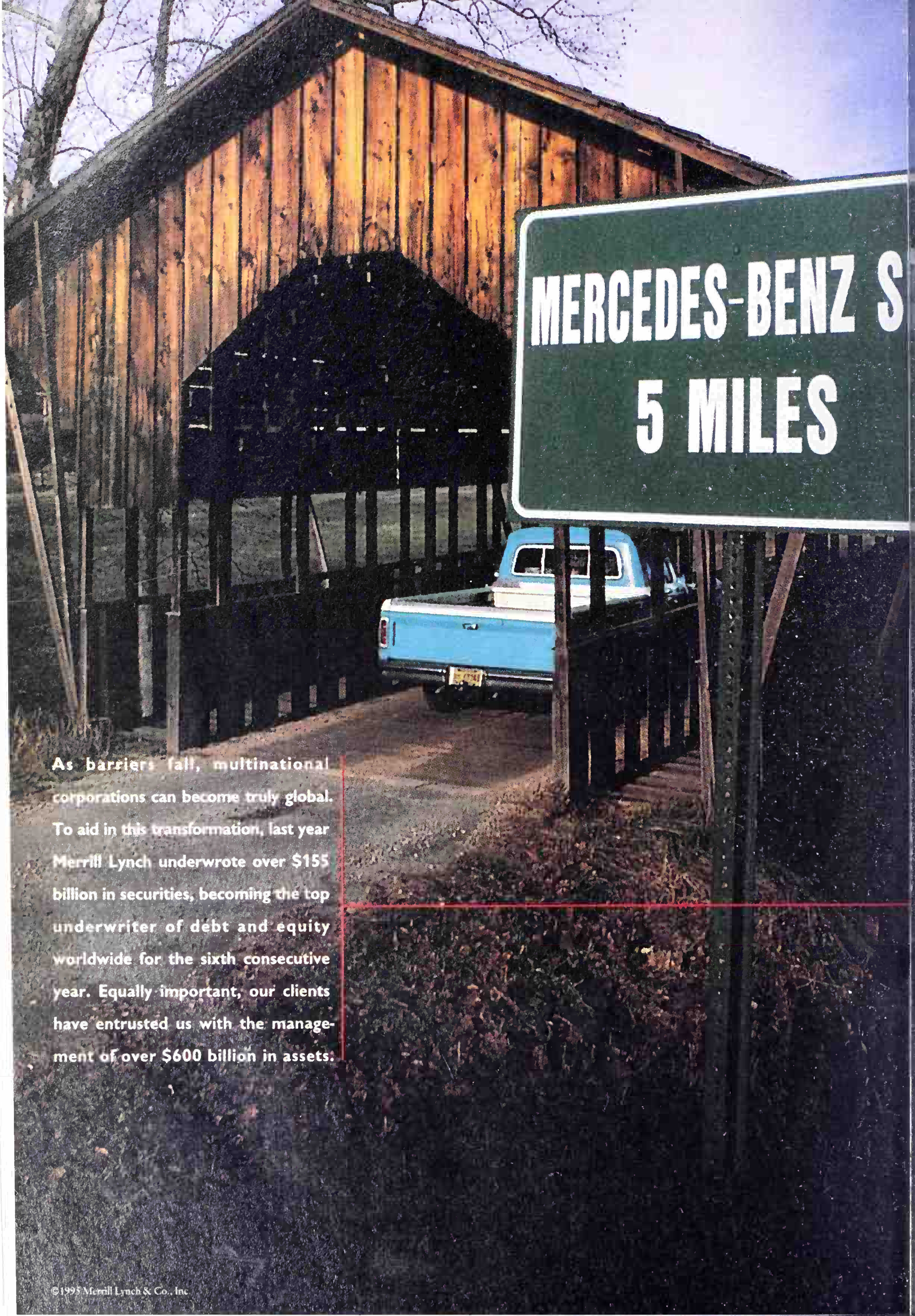

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ssing borders requires little effort. Barriers are ther matter entirely.

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BETWEEN CROSSING BORDERS
AND BARRIERS

AFTER THE WALL
Germany, the Germans and the Burdens of History
By Marc Fisher
Simon & Schuster • 350pp • $25

GERMANY SEEN THROUGH THE PAST, DARKLY

During his four years as Germany bureau chief for *The Washington Post*, Marc Fisher was accused by the local authorities of a consistent anti-German animus. His "minders" at the Federal Press Office, fearful of the impact his stories would have on Washington policymakers during the critical phases of German unification, bent his ear at every turn in an attempt to soften his reporting.

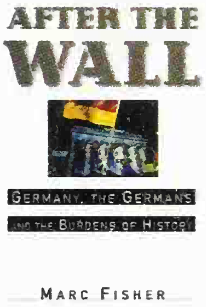
Fisher's offense was to harp on the past too much as he wrote about contemporary events. References to such "burdens" as the Nazi period, the Holocaust, the decades of Soviet-style communism in the east, and the general failure of Germans to confront their history recur in the 800 stories he wrote from between late 1989 and 1993, and in his new book, *After the Wall*. And with much justification: Recent attacks on Turks, whether by confirmed neo-Nazis or drunken louts, bring back ugly memories of prewar persecution of Jews.

Naturally, Fisher resisted the spinmeisters' efforts to inject sanitized official vocabulary into his writing. He called the forced return of Romanian Gypsy refugees to their homeland "deportation" instead of the suggested "readmission" or "retransfer." He also dug up facts that embarrassed the government, such as donations of "several million dollars" offered to the Holocaust Memorial Museum in Washington—conditioned on the addition of exhibits emphasizing democratic developments in postwar Germany.

It is *After the Wall*'s thesis that unless Germans honestly face up to their past—both Nazi and communist—they will not be able to create a new national identity and reunification will remain incomplete. But Fisher's approach has its own problems: Because of its emphasis on the past—and Fisher's brief stay in Germany—the book fails to provide a complete picture of the present.

In his introduction, Fisher tells us that he is Jewish, and his image of Germany had been formed largely by parents and teachers who stressed the Nazis and the Holocaust. Despite several trips to Europe, he had never set foot in Germany before the *Post* assignment, and his family, particularly his father, urged him to refuse the posting.

Despite that intellectual baggage and his pummeling by the Federal Press Office, Fisher reaches some remarkably sympathetic conclusions. Germany needs time to recreate a truly unified country, he says. And, until the nation's new identity is clear, "America's task as an ally is to hold back on the temptation to ask the Germans to act their size" by playing a larger role on the world stage—in international military missions, for example.



Still, Fisher can't shake his preoccupation with the past—a "yoke" that he argues "no one has the right to lift...now, later, ever." And this hang-up does not help the reader understand recent developments. For example, despite the scares about resurgent neo-Nazism that Fisher details, not one fascist was elected to Germany's Bundestag last year. In contrast, 15% of French voters this year supported the presidential bid of Jean-Marie Le Pen, an ultranationalist prone to anti-Semitic remarks.

The strength of Fisher's book is its reporting. He sought out those whom reporters sometimes patronizingly call "real people"—those without title or position. These interviewees talk perceptively about the drama unfolding around them. Long before Bonn officials concede how far apart the peoples of the two Germanies had grown, a schoolgirl from near Bonn tells Fisher si "We're two extremely different of people." In Rangsdorf, a fam East German "Ossis" peer out fro hind curtains, fearing that Fishe "Wessi" owner come to reclai house. Later, they confide their "Where have they been for years? We saved this house."

Illuminating and moving as so these anecdotes are, they are n whole story. Fisher arrived in Ge a tad too late for this man-on-the- method to be a complete succes was still studying German in the land on Nov. 9, 1989, the day the came down, so he never saw the ruptcy and oppressiveness of th East German regime. What's mo probably left too soon: His 1993 ture was before this year's tum 50-year anniversaries forced the mans to recall Hitler and the war sively—and before the eastern Ge economy started growing at nea ble-digit rates. His interviews, the slices of life locked in a time span, the raw ma of history—not consi analysis.

After the Wall is weak on economics, are essential to an u standing of current div Contrary to Fisher's tions, Bonn didn't sub East Germany's indu dinosaurs, the *Komb* for long. Through the *handanstalt* privati agency, it broke them up, sold the or closed them down. Instead, west German taxpayers paid sta ing amounts to support was, and i income of east Germans through sions, the dole, and make-work sc

The result: Overnight, the ers super-efficient heroes of the Sovi became a nation of welfare bums cannot understand east and west man attitudes today without t stock of that blow to national s teem. And until the Germans wo their own internal divisions, they be able, as Fisher suggests, "to ahead with honest memory to em the burden of their past as their

BY JOHN TEMPL

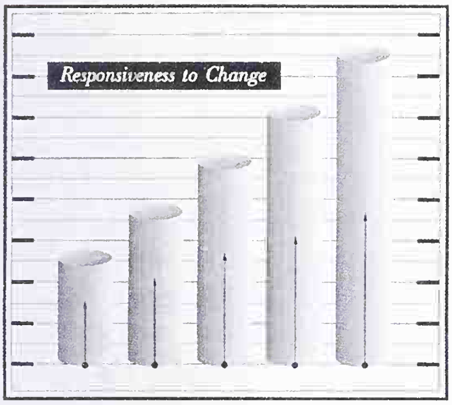
Templeman is BUSINESS WEEK*'s bureau chief.*

UNLESS GERMANY FACES UP TO COMMUNIST AN
NAZI HORRORS, IT CAN'T FORGE A NEW IDENTIT

have a significant advantage over those tied down by convention, bureaucracy and big-spending.

FLEXIBILITY

The varied demands of today's marketplace require small businesses to perform an increasing variety of functions.



Whether it's in sales or finance, realty or retail, flexibility is the new key to long-term success. In these days of doing more with less, the way in which companies allocate resources has changed. In the past, financial clout often determined who came out on top. Today, faced with competitive and market pressures unimagined ten years ago, companies must now find

Flexibility and a sense of adventure must be a part of any company's corporate culture if it is to succeed into the 21st century

•

Large companies, of course

a greater challenge than small busi

generally have an easier time impleme

cies. But no matter what the size o

companies with an adaptable stru

outlook are better positioned to capture

than their competitors; their ability to

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sures their continued success.

•

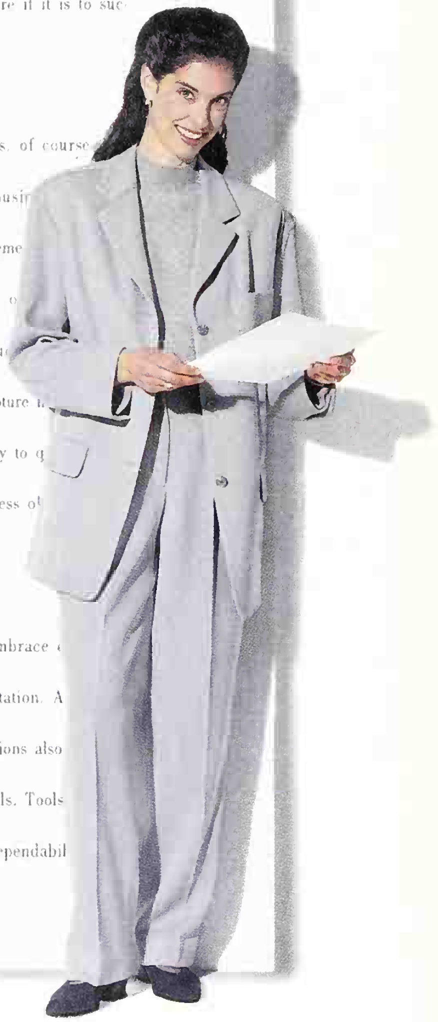
Willingness to embrace

just the beginning of this reorientation. A

response to rapidly evolving situations also

a careful selection of business tools. Tools

chosen for their versatility and dependabil



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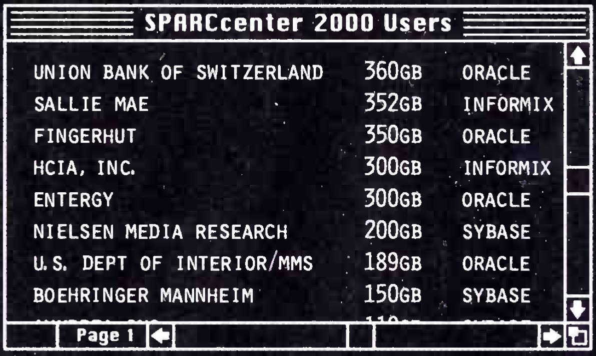

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BY STEPHEN H. WILDSTROM

PICKING THROUGH WEB CLUTTER

Barely a year ago, the World Wide Web was an obscure corner of cyberspace, little known even to many denizens of the Internet. But easier access, including links from Prodigy, CompuServe, and America Online, has brought millions of explorers to the Web. The quality of what they find is getting better.

True, I still find the Web awash in self-indulgent junk, such as the picture of a commons-room coffeepot at Cambridge University. But amid the clutter lurks a great deal of useful, interesting, and entertaining material. Although the Web has always been diverting, it is gradually becoming a tool I—and my less technically inclined colleagues—use regularly at work. While my needs and interests are probably different from yours, a tour of my favorite Web sites may give you some idea of what's out there.

More often than not, I have only a foggy notion of where to find something when I set forth on the Web, so my first stop is usually a site that helps me locate other resources. Carnegie Mellon University's Lycos search index (table) allows me to scan millions of Web documents for key words.

SERVER LINKS. While Lycos points you to specific documents, the Yahoo search tool guides you instead to sites that that specialize in the subject you're interested in. Yahoo offers an opening menu of 18 general categories that are repeatedly subdivided until, with luck, you reach the individual Web server you are seeking. Neither Lycos nor Yahoo offers any cool graphics, movies, or audio clips—just tons of useful information.

One feature of a first-rate Web site is helpful links to other servers. And two of the best starting points are run by the Small Business Administration and the Library of Congress. SBA Online offers a lot of information on federal programs to assist small business. But its real glory is a long, well-organized list of links to other, mostly government-run, servers of value to business, from the Securities & Exchange Commission's EDGAR database of corporate filings to the Central Intelligence Agency's handy *World Factbook*.

The Library of Congress offers a mixture of information and entertainment. Its main attractions are the Library's massive catalog, a database tracking the status of legislation in Congress, and the full text of the daily *Congressional Record*. But it also provides digitized tours of present and past Library of Congress exhibits, including the newly rediscovered Walt Whitman notebooks and Renaissance treasures of the Vatican Library.

If your business is considering putting up its own pages on the Web, you might want to look at some companies that use the technology particularly well. General Electric Plastics offers its customers thousands of pages of specifications and technical information—data that once had to be mailed or faxed. And Novell Inc. provides a wealth of information on its products, including complete online documentation for its NetWare networking software.

All work and no play would make me a dull columnist, so I surf the Web for fun, too. I've always been interested in meteorology and find newspaper and television weather maps frustratingly uninformative. The Web allows me to get the lates
ellite pictures from ar
the globe and provid
marvelously detailed cur
conditions map of N
America. Of the many
offering meteorological
my favorite is the Mic
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MATH, TOO. I realized
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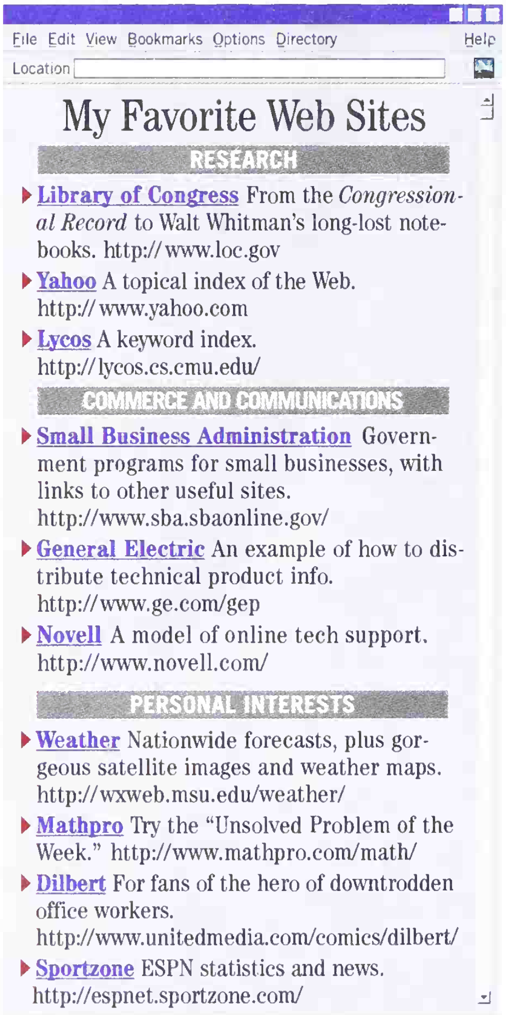

My Favorite Web Sites

RESEARCH

- **Library of Congress** From the *Congressional Record* to Walt Whitman's long-lost notebooks. http://www.loc.gov
- **Yahoo** A topical index of the Web. http://www.yahoo.com
- **Lycos** A keyword index. http://lycos.cs.cmu.edu/

COMMERCE AND COMMUNICATIONS

- **Small Business Administration** Government programs for small businesses, with links to other useful sites. http://www.sba.sbaonline.gov/
- **General Electric** An example of how to distribute technical product info. http://www.ge.com/gep
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ALAN BASEDEN

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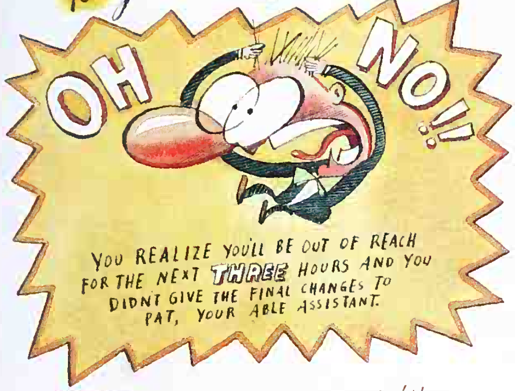
A DAY in the LIFE of a BUSINESS TRAVELER

You get on the AIRPLANE...



YOU REALIZE YOU'LL BE OUT OF REACH FOR THE NEXT THREE HOURS AND YOU DIDNT GIVE THE FINAL CHANGES TO PAT, YOUR ABLE ASSISTANT.

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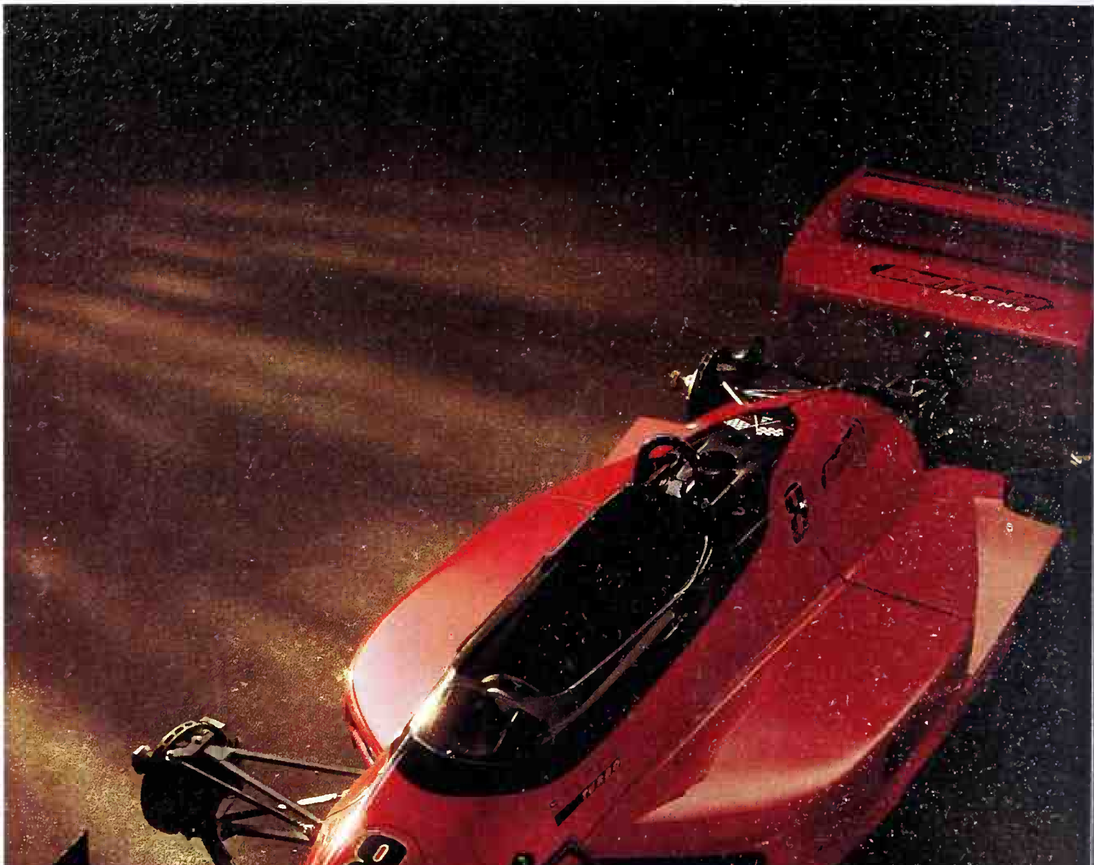
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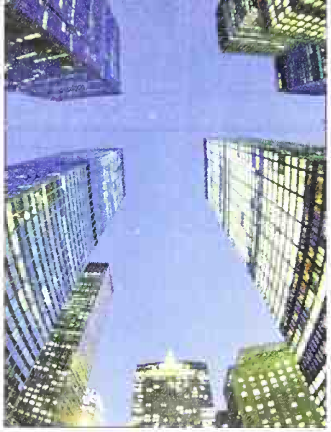

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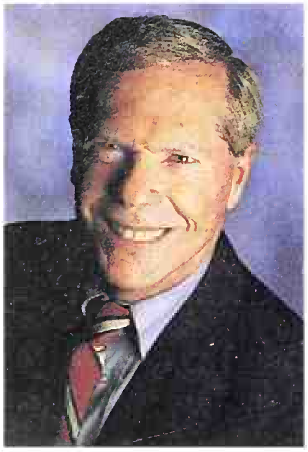
BY PAUL CRAIG ROBERTS

QUIETLY, NOW, LET'S RETHINK THE OZONE APOCALYPSE



DEBUNKED: Studies that show CFCs are not to blame for holes in the ozone have lawmakers questioning the coming ban on production

Paul Craig Roberts is John M. Olin Fellow of the Institute for Political Economy and Distinguished Fellow of the Cato Institute in Washington, D.C.

In this space one year ago ("What's Flying Out the Ozone Hole? Billions of Dollars," June 13, 1994), I raised questions about the scientific basis for the expensive phase-out of chlorofluorocarbons (CFCs) such as freon, the primary cooling agent in air conditioners, that leaves the U.S. and other world economies facing large near-term costs. The column generated a tremendous response. Businessmen wrote to me from as far away as India asking why policymakers are permitting an unproven theory of ozone depletion to impose such heavy costs on the global economy.

It is a good question—and one that is finally beginning to get some response from lawmakers now that the ban on CFC production is only six months away. Representative Tom DeLay (R-Tex.) has introduced a bill, H.R. 475, to repeal the provisions of the 1990 Clean Air Act that regulate the production and use of CFCs. Representative John T. Doolittle (R-Calif.) has asked Administrator Carol M. Browner to revise the Environmental Protection Agency's outdated 1987 cost-benefit analysis in light of new scientific evidence.

The fear of deadly skin cancer, malignant melanoma, is the reason for phasing out CFCs. The public and lawmakers have been told that CFCs destroy stratospheric ozone, which filters out ultraviolet-band (UV-B) radiation. According to an EPA prediction, ozone depletion will result in an additional 3 million skin-cancer deaths by 2075.

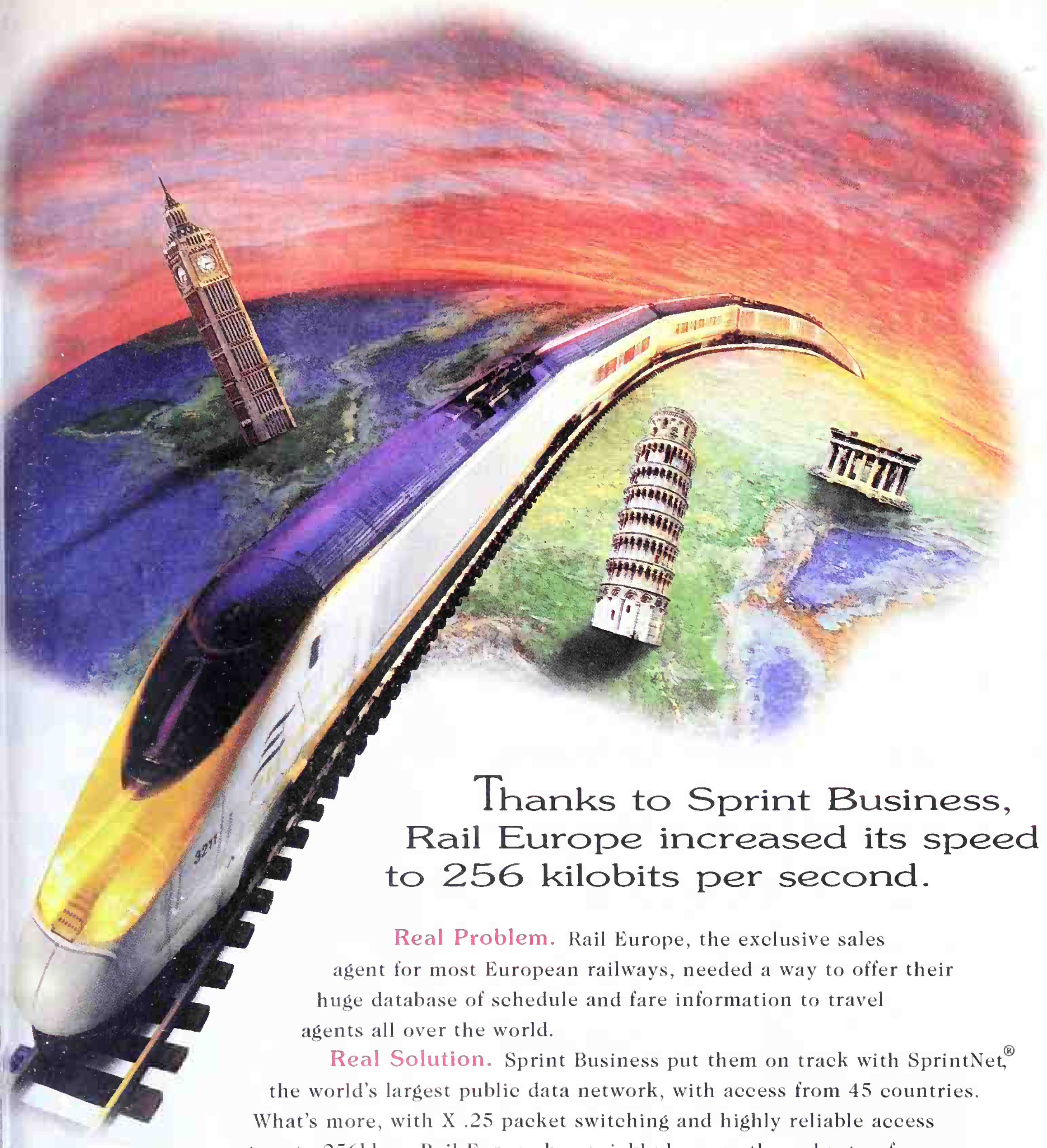
BASELESS HYSTERIA. S. Fred Singer, the scientist who invented the satellite ozone monitor, recently wrote in *Technology: Journal of the Franklin Institute* that the CFC phaseout was "based mainly on panicky reactions to press releases . . . rather than on published work that has withstood the scrutiny of scientific peers." And Sallie Baliunas, an award-winning astrophysicist at the Harvard-Smithsonian Center for Astrophysics, wrote in a paper, "Ozone and Global Warming: Are the Problems Real?": "The scientific facts clearly indicate, first, that there is no observational evidence that man-made chemicals like CFCs are dangerously thinning the ozone layer over most of the world and, second, that the kind of ultraviolet that would be let through by a thinner ozone layer, UV-B, is not the UV that causes melanoma. On two counts, the hysteria and costly regulations are entirely unfounded."

Interested readers can obtain Baliun
per from the George C. Marshall Instit
Washington. She makes the facts acces
and does not equivocate: "There is
served change in global ozone concentr
or mean temperature that is outsid
bounds of natural variability. There is
entific merit to the claim of an ultraviol
tastrophe by precipitous ozone loss. Th
no scientific basis for a catastrophic
warming produced by the buildup of
house gases from fossil-fuel burning." S
lieves the next step could be extremely
ly and unjustified fossil-fuel and c
dioxide restrictions.

MEDIA HYPE. The ozone scare appears
based more on hypothesis than on fact,
fear is too farfetched to be enlisted as a
on against CFCs. Melanie Duchin of the
peace Ozone Protection Campaign ever
ozone-destroying chemicals with "reduc
nis size." Gregg Easterbrook, in his new
A Moment on the Earth, documents th
played by unsubstantiated press releas
February, 1992, NASA scientists sprea
that an ozone hole was opening over po
ed regions of the U.S. and Europe.
magazine hyped the scare to the hilt
cover story, "Vanishing Ozone: The D
Moves Closer to Home." Vice-Preside
Gore gave an impassioned Senate s
about "the greatest crisis humanity has
faced." Duly panicked, the Senate vote
to accelerate the CFC ban by five years

As Easterbrook notes, it was a sp
tive apocalypse, not a real one. When
cized NASA for its scare tactics, Associat
ministrator Charles F. Kennel denie
NASA had predicted a second ozone h
case could be made that the media ig
NASA's hedged language and ran away
the story, but no one at NASA lifted a
correct the phony scare sparked by the
release or to forestall the Senate vot
fear and misinformation propelled.

Dr. Singer believes that ozone policy
on unproven assumptions that are bein
tected by such means as denial of res
funds to dissenting scientists and the m
and dismissal of government scientist
demand evidence before implementing
pensive policy. If we are to be well-gov
Congress must take an objective look at
depletion before we experience the b
tax increase in history.



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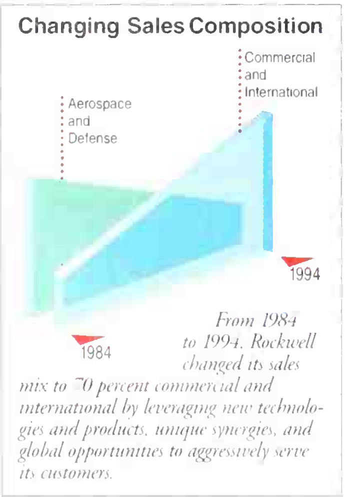
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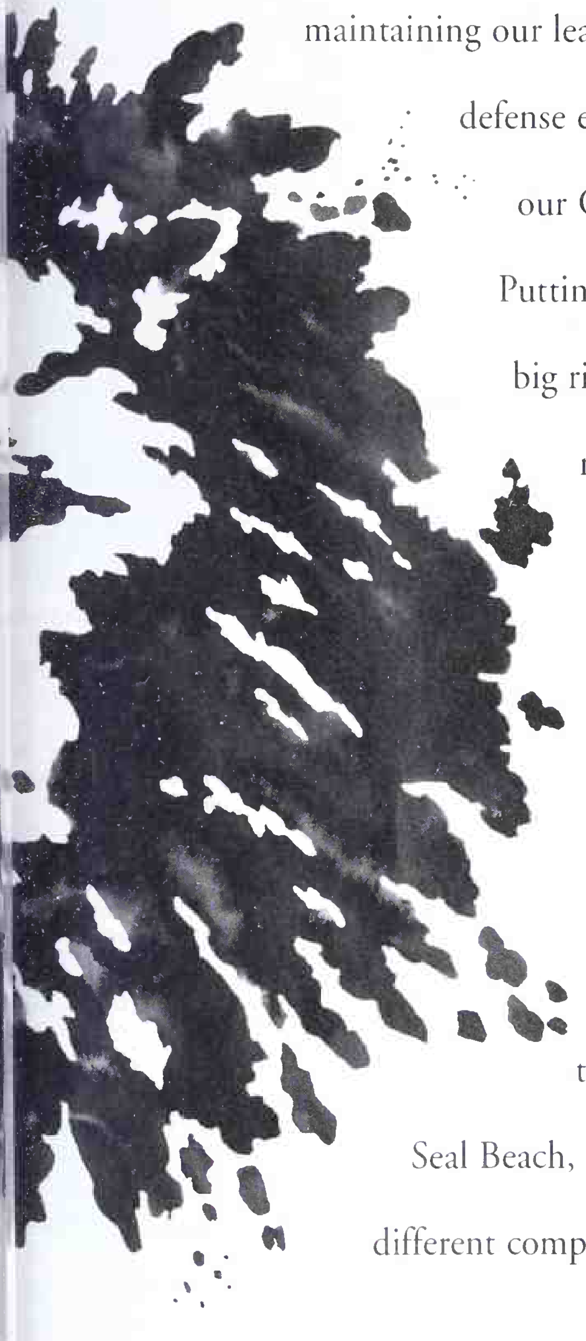

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Economic Trends

BY GENE KORETZ

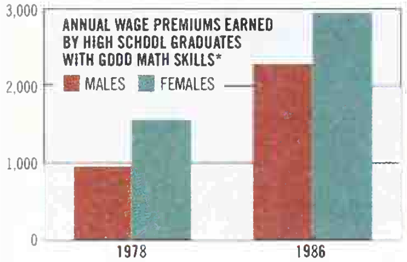
ONE PLUS ONE = HIGHER WAGES

A little math can be a big asset

Few U.S. labor market trends have attracted as much public concern as the dramatic increase in earnings inequality since the 1970s. Most economists have attributed this development to structural shifts in the economy favoring technological skills. They note that the wage premiums enjoyed by college graduates compared with high school graduates took a big leap in recent decades.

But years of schooling and academic degrees are only part of the story, report Richard J. Murnane and John B. Willett of Harvard University's Graduate School of Education and Frank Levy of the Massachusetts Institute of Technology. In a study in the May issue of the *Review of Economics and Statistics*, the researchers show that the lack of math skills themselves have had a growing impact on wage dispersion in the economy.

THE GROWING PAYOFF FROM BASIC MATH SKILLS



▲ CONSTANT 1988 DOLLARS *24-YEAR-OLDS

DATA: RICHARD J. MURNANE, JOHN B. WILLETT, AND FRANK LEVY

Adjusting for race, family background, work experience, and other variables, the researchers analyzed the wage profiles of samples of two groups of workers: 24-year-old high school and college graduates in 1978, and 24-year-old high school and college grads in 1986. Both groups had been tested for basic math skills, such as using decimals and fractions and reading simple line graphs, when they were high school seniors six years earlier.

The study's findings: In 1978, there was only a 5% difference between the wages of young male college graduates who had exhibited a mastery of basic math while in high school and the wages of college grads with weak math scores in high school. But by 1986, young male college graduates with good math skills in high school were earning over 15% more than their peers who had scored poorly. Among young female workers with college degrees, the wage premium widened from 12% in 1978 to 25% in 1986.

The big surprise, however, was that the influence of math skills on wages was just as pronounced among high school graduates with no college attendance at all (chart). By 1986, working 24-year-old high school grads who had scored well on math tests as seniors were earning $2,000 to $3,000 more a year than those with low scores.

To be sure, in 1986, 24-year-old male high school graduates with high math skills were still earning less than 24-year-olds with low skills earned in 1978, a sign of the dramatic decline in demand for less educated males over the 1980s. But the central message of the study, says Murnane, "is that a high school student's mastery of basic cognitive skills like math is an increasingly important determinant of subsequent wages—even if he or she doesn't go on to college."

WHO NEEDS GUM AND PATCHES?

Just pass a hefty cigarette tax

The Clinton Administration's proposed 75¢-per-pack increase in the federal cigarette tax isn't likely to be revived soon, but that hasn't stopped economists Frank Chaloupka and Henry Wechsler from calculating its impact on smokers. Their recent National Bureau of Economic Research study based on a 1993 survey of U.S. college students concludes that the tax hike (if fully passed on to smokers) would have cut smoking among students by 30%.

Factoring in the price responsiveness of all young smokers, the researchers figure that the tax hike would have reduced the number of smokers aged 18 through 24 by more than 1.8 million. It would also have cut eventual smoking-related premature deaths in this group by more than 450,000.

The two economists also find that such a tax hike would lead to large increases in tax revenues, since the smoking population is dominated by older smokers whose habits are less sensitive to price. Although tax receipts would eventually decline, they find that the current tax rate is well below the level producing the highest long-run tax take.

THE TAXMAN GIVETH—TARDIL

Will retail sales get juiced up?

Blame it on the taxman. After consumer spending slowed ear year, observers were quick to not the Internal Revenue Service had unusually late in mailing out tax re and that final tax payments in Ap people with liabilities were up s cantly over 1994 (BW—June 5).

Now, however, the taxman coughed up. Economists at Sal Brothers Inc. observe that a recor billion worth of personal refunds issued on the final Friday of M enough to push the monthly tally above 1994. Since many folks don' for their expected checks to start ping, Solly's experts doubt if the surge will boost retail sales much they're keeping their fingers cross

BLUE-COLLAR BLUES IN JAPAN

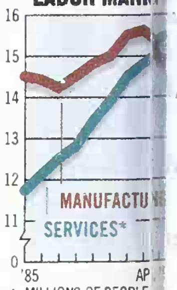
Factory jobs are dipping again

The rise in Japan's unemploymen to a record 3.2% in March s more than a pause in the recovery tends economist Shigeki Sakaki of ra Research Institute America Inc economy now seems to be in the stages of a significant downsizing of ufacturing employment.

Just a month ago, reports Sakaki anese manufacturers indicated that had cut costs enough to lower break-even point to around 103 y the dollar. That's still far above the current exchange rate, so a lot more production seems headed overseas.

Whereas factory jobs as a percent of total Japanese employment stayed above 24% from 1979 through 1992, Sakaki notes that the share is now closer to 23% and falling. (The U.S. ratio is 16%.) The big question, he says, is wh hiring by Japan's nonmanufacturing tors will be strong enough to off more rapid erosion in factory jobs.

JAPAN'S SHIF LABOR MARK



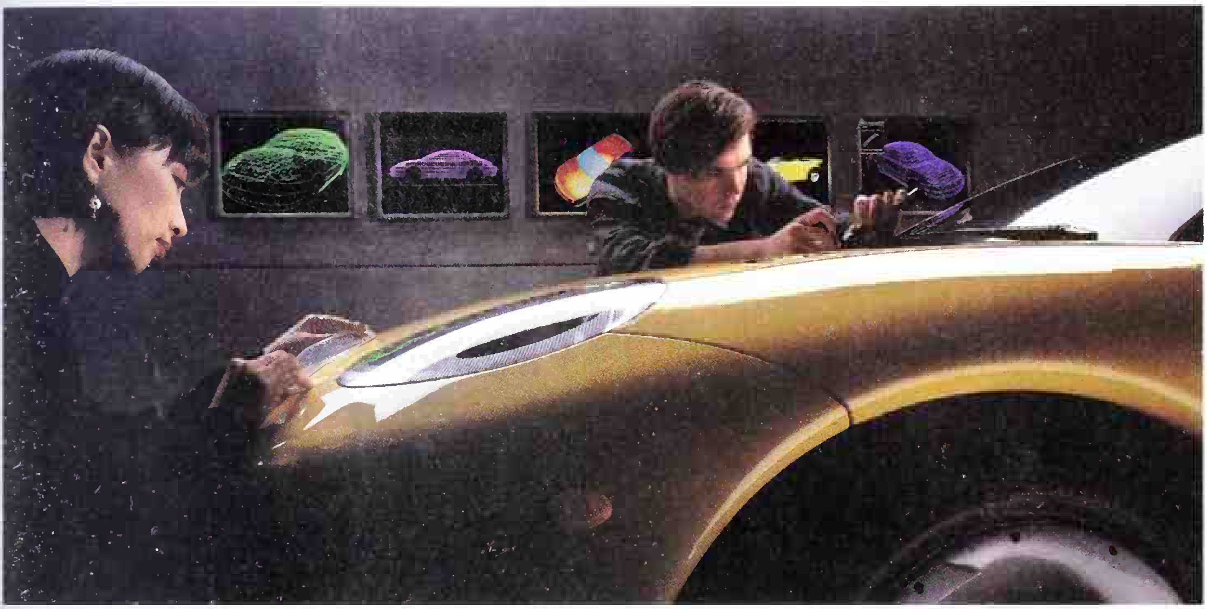
▲ MILLIONS OF PEOPLE

*GOVERNMENT, BUSINESS PERSONAL SERVICES, IN HEALTH AND EDUCATION

DATA: JAPANESE MINISTRY

ERIC HOFFMANN/BW

OUR DESIGNS ARE CONSTANTLY CHANGING BUT OUR *PHILOSOPHY* REMAINS THE SAME.



Ford Designers: Soo Kang, Robert Bauer.

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Viktor Kozeny
Fund Manager

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telecommunications 18%, chemical 12%, other 10%, pulp and paper
construction 4% and consumer goods 3%; return based on initial pr
of voucher book: **two thousand eight hundred and fifty percent**, 2.85
(from May 1, 1992 to December 16, 1994: 1.035 CZK, i.e. the price
a voucher book), average annual return **three hundred and fifty perc**
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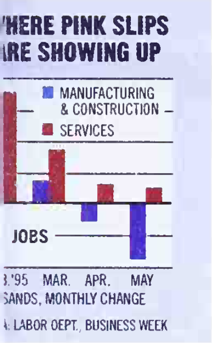
AMES C. COOPER & KATHLEEN MADIGAN

IE DIPS IN THE ROAD ON'T LAST FOREVER

U.S. ECONOMY The economy's goods-producing sector has always been 'ederal Reserve's whipping boy when it comes to ılining an unruly economy—and thereby containing ion. The punishment eventually takes a human especially on workers in manufacturing and contion. This time the pain is coming especially fast. e 101,000 drop in the nation's payrolls in May, ving a slight dip in April, shocked economists, fial markets, and probably even the Fed. It was a sion-size decline, larger than any since the 1990-91 turn. True to form, workers at factories and buildtes took the biggest blow (chart).

ıer downbeat reports: Consumers, faced with high- bills, cut back on spending in April. The nation's ıasing managers said the industrial sector was in sion in May. And a triple dip in the index of leadıdicators is another red flag of trouble ahead.


'HERE PINK SLIPS ARE SHOWING UP

SANDS, MONTHLY CHANGE
A: LABOR OEPT., BUSINESS WEEK

Fueled by new fears of recession, the bond market exploded on June 2 in the largest intraday rally in a decade, before giving back some gains. Yields still closed at a 15-month low. And the latest data, especially the May job losses, place increasing pressure on the Fed to ease policy.

The credit markets are inviting a rate cut. The rate on ear Treasury bills is now more than a quarter below the Fed's 6% overnight federal funds rate. ever, comments by top Fed officials on June 7 ıe markets less certain that a rate cut was immi- Most notably, Fed Chairman Alan Greenspan hat, as might be expected, the probability of ren has "edged up," but he also said that the deng slowdown was a desired result of Fed policy.

THING IS CLEAR: The current slowdown is far the soft landing that most observers had in mind the Fed set out to slow growth from an inflationace of 4% in 1994 down to an inflation-neutral h rate of about 2.5%. Based on the latest numsecond-quarter growth in real gross domestic ct will struggle to clear 1%.

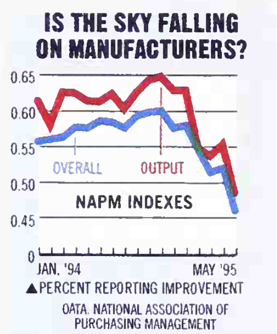
good news, however, is that the weakness still rs to be temporary and unlikely to feed on itself vay that would send the economy spiraling downinto a painful recession (page 76).

So far, the softness is concentrated on the output side of the economy, mainly in the goods-producing sector. The production weakness suggests that what's going on is primarily an attempt by businesses to wrestle their excessive inventories into better alignment with slower growth in demand. Once stock levels are adjusted, manufacturing output will pick up again.

Of course, this assumes that consumer demand doesn't suddenly sink into oblivion. On that score, the news is encouraging. Although real consumer spending on goods and services fell 0.1% in April, retailers reported healthy May sales. Also in May, Detroit announced that sales of U.S.-made cars and light trucks rose to an annual rate of 14.6 million, up from a tepid 13.9 million pace in April.

AT FIRST BLUSH, April's huge 1.1% drop in households' real aftertax income would appear to blight chances for healthier consumer spending. However, special factors were at work. The second installment of the 1993 tax hike on the wealthiest individuals subtracted a huge $50 billion from incomes, at an annual rate.

May incomes will return to normal. Also, by the end of April, the Internal Revenue Service had caught up with its mailing of refund checks, which had been delayed. That may have played a small part in recent consumer weakness. But at the end of May, refunds totaled a record $8.8 billion, twice the year-ago pace.


IS THE SKY FALLING ON MANUFACTURERS?

▲PERCENT REPORTING IMPROVEMENT
OATA. NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT

Those checks may be helping June spending. The *Johnson Redbook* survey of retailers shows strong sales in early June, compared to May. And consumer balance sheets look healthy. Mortgage delinquencies in the first quarter dropped to a 22-year low, and a new wave of refinancing will lift cash flow (page 43).

Besides, the recent slowdown in consumer spending has not been broad. The weakness has been solely in durable goods. In the first four months of the year, the pace of the remaining 85% of outlays has picked up.

And almost all of the decline in durable goods sales was in motor vehicles. That's why the inventory correction, and the need to throttle back output, is heavily concentrated in the auto and related industries.

Detroit's gyrations may also be exerting a disproportionate impact on the purchasing managers' index (chart), which tends to be highly correlated with fluctu-

ERIC HOFFMANN/BW

ations in the output of autos and trucks. The purchasers' gauge of industrial activity dropped in May to 46.1%, from 52% in April. That's below the 50% line dividing recession from expansion in manufacturing.

Almost all of the components fell, including orders, production, employment, and inventories. In particular, the inventory index dropped to a level suggesting factory inventories have stopped growing and may well begin to decline. This hints that, as June began, inventory correction was underway. Official inventory data from the Commerce Dept. run only through April right now, and manufacturing and wholesale inventories were still rising in April.

BUT WHILE THE SLOWDOWN looks to be only temporary, it also is turning out to be sharp. The May employment report was a real head turner. The numbers were weak from top to bottom. Manufacturing lost 56,000 jobs on top of the 25,000 shed in April, and construction laid off 57,000 workers after April's 19,000 decline. Service companies managed to increase payrolls by 36,000, a tiny amount by recent standards.

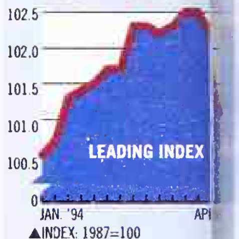
In addition, the May workweek fell by a steep 18 minutes, to 34.3 hours. That drop, plus the relentless rise in jobless claims, portends further weakness for payrolls in June.

In the factory sector, the workweek held at April's reading of 41.5 hours, but because of fewer jobs and less overtime, the data imply that factory production in May declined for the fourth month in a row, likely led by another big drop in car and truck output.

Another eye-popping number was April's 0.6% drop in the government's index of leading indicators, those that point to the economy's future (chart). The April decline was the third in a row, a traditional warning that recession is just around the corner. And based on data so far, the index likely fell again in May.

Bear in mind that the leading index has a spotty record at calling recessions. The problem: Five of the 11 indicators that comprise the index are directly linked to manufacturing, which has shrunk to only about 20% of the economy's GDP and now accounts for less than 16% of total employment. Consequently, the index in recent years has acted more like a coincident indicator, telling us more about where we are and less about where we're headed.

ANOTHER SIGN OF ROUGH TIMES AHEAD



▲INDEX: 1987=100

DATA: COMMERCE DEPT.

Sadly, May's job losses do a much better job of describing where we are right now. But unless consumers suddenly abandon the malls—which seems unlikely—the pain will be short, and the gain will be an extended lift for the expansion.

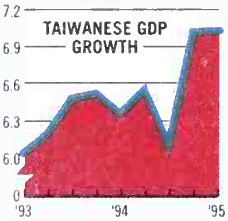
TAIWAN

THE INFLATION BEAST IS RESTLESS

With Taiwan's economy growing like a weed, it's not surprising that inflation is now a critical concern for investors.

Real gross domestic product in the first quarter surged 7% from a year ago, the fastest pace in three years. Consumer spending grew at a 6% clip, but exports soared 23.3%. Exporters sold more to China and Hong Kong, collectively Taiwan's biggest trading partner. And thanks to the strong yen and U. S. expansion, exports rose 32% to Japan and 13.7% to the U. S.

A GROWTH SPURT LIFTS INFLATION FEARS



▲PERCENT CHANGE FROM YEAR AGO

DATA: DRI/McGRAW-HILL

The downside to rapid growth has been the resurgence of inflation fears. In the first quarter, consumer prices grew at a 4.2% annual rate, far above the 3.5% projected by the government in late 1994. In fact, the government has had to raise its inflation forecast for all of 1995, from 3.7% to 3.9%, and private economists think it could top 4%. In response, the stock market plunged 20% from early January until late May.

Inflation has been tamer this quarter, thanks to slowing money-supply growth, high interest rates, and a strong currency. In May, consumer prices rose just 3.3% annually, down from April's 4.3%. Investors voiced approval with an early-June rally in the stock market.

To check inflation, Taiwan's central bank, the Central Bank of China, is likely to rely on tight money growth and a rising currency. In April, the broad M2 money supply grew 11% from a year ago—hefty, but still the lowest rate in four years. Meanwhile, the Taiwanese dollar has climbed 3% against the U. S. dollar so far this year. And with its $97.9 billion in foreign reserve, Taiwan can easily guide its dollar's future direction.

A strong currency, though, may hold back exports—a huge 59% of the economy. Another risk is the slow growth in the U. S. and Japan. Together, the two nations buy 36% of Taiwan's exports, so softer-than-expected upturns in the world's two largest economies could hurt Taiwan's growth later on. Investors, however, are counting on a slowdown to ease their inflation worries.

ERIC HOFFMANN/BW

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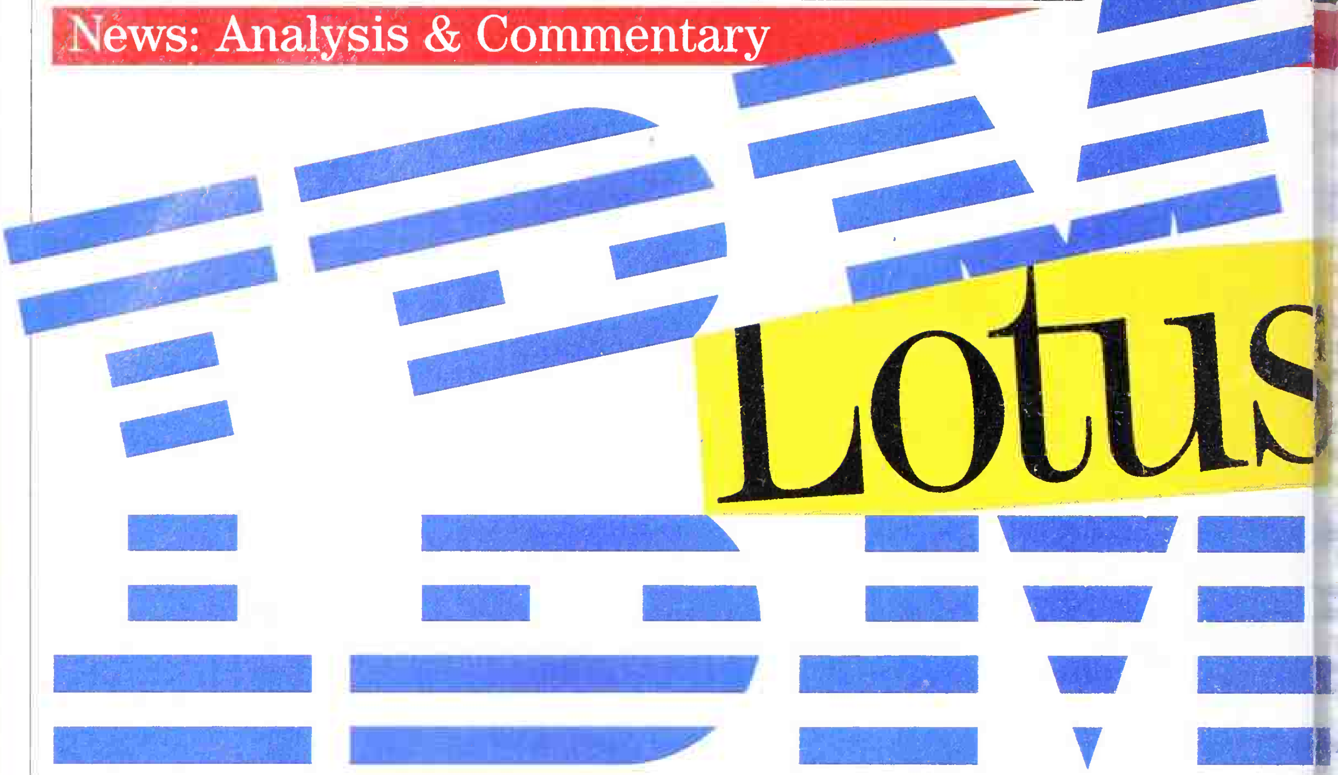


DEALS

GERSTNER AT THE GATES

IBM's hostile bid for Lotus signals its resolve to take on Microsoft

Lou Gerstner hates it when he hears people call Microsoft the world's largest software company. It gnaws at him. The fact is, IBM sells $11 billion worth of software a year—more than twice Microsoft's revenues.

The world won't likely slight IBM again if Gerstner pulls off his surprise $3.3 billion cash offer, announced on June 5, for Lotus Development Corp. The bid—Big Blue's first-ever hostile takeover attempt—would not just be the biggest deal in the history of software: It also has the potential finally to make IBM a serious challenger to Microsoft Corp., which owns a staggering 80% of the market for the operating systems and applications suites that run on personal computers.

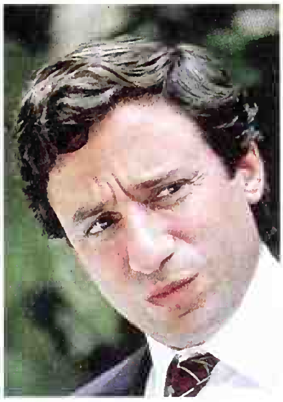
How? The acquisition could allow IBM to seize the lead in the new era of networked computing. Right off the bat, IBM would get Lotus' cc:Mail and Notes, the top-selling packages for electronic-mail and groupware. More important, IBM has the marketing muscle, financial resources, and technology knowhow to make Notes a widespread "platform" for building networked information systems. "There's an opportunity for leadership in the combined entity," says Gerstner.

SORRY STATE. Just ask Bill Gates. "It's fascinating," says the Microsoft chairman, who, like just about everybody else, was stunned by the boldness of the IBM move. But he warns: "It really has a lot to do with execution." On
of the bid, Gates assembled a six-p
task force to study the impact
IBM-Lotus combination on Microso

The acquisition plan was hatche
ter a series of internal task forc
IBM had summed up the sorry sta
the company's software efforts. Th
sessment was grim: IBM, with thou
of programmers around the world
had no significant presence in de
software. It had failed to perf
groupware product, and Microsoft
poised to make a major push into
working with its new Windows 95
ating system and a Notes-like pac
called Exchange. John M. Thom
the senior vice-president Gerstner
asked to straighten out software o
tions in January, concluded that the
est route into network software v
be buying Lotus.

The two companies have a long

GERSTNER: *Bold moves*



MANZI: *Few options*

' marketing and development
ıgements, primarily involving
s and OS/2, the IBM operating
m. As recently as last sum-
Lotus CEO Jim P. Manzi was
ssing a number of possible ar-
ɜments with James A. Canna-
IBM's former chief strategist—
ling a proposal by Manzi for
ɔ buy Lotus' declining desktop
are business, which includes
-2-3 spreadsheet line.

ınzi, though, rebuffed Thomp-
suggestions, starting early
year, that IBM acquire all of
. By the spring, the testy re-
ship between the two com-
s had grown strained—and IBM
ɔegun exploring alternatives. In
lay, say executives familiar with
ɔmpany's plans, IBM was ready to
a deal with a small software mak-
led Attachmate Corp., which sells
es-like product called Open Mind,
ɔ buy Star Division, a tiny German
any that sells a suite of desktop
are applications.

-ROARING SUCCESS." Even as IBM
iated these deals, top executives
ioned whether they would suffice.
e May, Gerstner made the call: Go
Lotus—with or without Manzi.
'sts say Gerstner's instincts are
on. They point out that the deal
represent the last best chance for
companies to keep Microsoft from
ıating networked computing the
t rules in desktop PCs. Indeed, as
nter of gravity shifts from desktop
the network, operating systems
ıs Windows may no longer be the
rategic technology. "Network-cen-
mputing has little to do with Win-
" says Cannavino, who retired at
ıd of March.

ıt's what Manzi has been saying all
But Lotus hasn't had the organ-
ı or the might to make Notes the
ɔws of networked computing.
where IBM can help. Gerstner fig-
BM can establish Notes as a ubiq-
software platform. The quickest
would be to persuade PC makers
ɔ Notes with every machine they
nd Gerstner has hinted he may
Notes with IBM PCs. Meanwhile,
siders figure they can push Notes
to $1 billion next year, up 40%
vhat analysts project Lotus will do
5. Equally important, IBM has the
tise to beef up Notes so it can
hundreds of thousands of users
etwork.

l, as Gates points out, it will all
the execution. "They have an $11
software business they can't run.
They're going to run Lotus better? Get out of here," says Marc Butlein, chairman of Meta Group, a computer consulting firm. Nobody is more aware of IBM's shortcomings than Gerstner. So, in a memo sent over the Internet to Lotus employees, Gerstner promised that, postmerger, Lotus will survive intact and become the hub of a new IBM PC software operation. Notes developer Raymond E. Ozzie already sounds like a convert: "I've spent 10 years of my life nurturing this product," he says. "We have a goliath coming into the market with Microsoft. I want to do everything I can to make sure that Notes is a rip-roaring success."

Gerstner has more at stake than his $3.3 billion. For more than a year, he has been telling analysts and customers that the future of the company depends in large measure on its ability to lead in network computing. Notes would help make that happen. Prior to June 5, IBM had been negotiating with Lotus to run Notes on the IBM Global Network, which carries data for 25,000 corporate customers, for example.

With $10.5 billion in cash and a stock that has doubled in the past two years, Gerstner may not stop his shopping with Lotus. Insiders say IBM could make a play for network operating-system maker Novell Inc. or database maker Informix Corp. Gerstner declines to comment on additional acquisitions but

Software's New Playing Field?

How IBM's and Microsoft's operations would stack up

IBM/LOTUS	MICROSOFT
ON THE DESKTOP...	
● Its OS/2 operating system, launched seven years ago, isn't in the same league as Microsoft's Windows. And IBM's few applications never caught on. Lotus would give IBM a presence in applications—particularly with Lotus 1-2-3.	● With 70 million users, Windows dominates the operating-system market–and its base is growing. Thanks to its Excel spreadsheet and word processing package, Word, Microsoft also is the biggest player in applications software.
OFFICE NETWORKS...	
● Lotus' Notes is the key. The groupware package has a huge lead over competitors' products and would fill a hole in Big Blue's product line. Lotus also brings cc:Mail, the leading electronic-mail product.	● Its Windows NT, for networks of personal computers, is gaining market acceptance. But Exchange, a Notes competitor that likely won't appear until next year, has hit repeated snags.
TOP-TO-BOTTOM TECHNOLOGY...	
● The company is the entrenched leader in mainframe and minicomputer software for running corporate-wide systems. The challenge: Moving that "mission-critical" software onto the PC-based networks that are replacing bigger machines.	● The king of PC software hopes to push NT and related programs into IBM's big-system turf. This summer, it will introduce Microsoft Network, an online information and communications service that will compete with IBM's Prodigy.

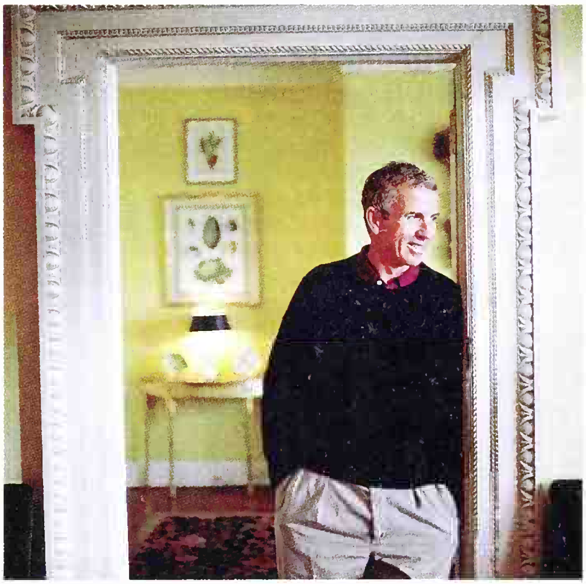
(L TO R) PHOTOGRAPHS BY LISA QUINONES/BLACK STAR, JIM LEYNSE/REA/SABA

stops short of ruling them out. "Right now we are focusing on this one," he told reporters on June 5.

Manzi may be the only real obstacle to the deal. "It comes down to the ego of [Lotus'] top execs," says John McCarthy, an analyst with Forrester Research Inc. "They don't want to be labeled as selling out to IBM." Lotus executives aren't talking about IBM's bid, but their options appear limited. The most obvious white knights—AT&T, Oracle, and Hewlett-Packard—all are unlikely to top IBM's $60-per-share offer. The best Manzi can do, analysts expect, is to bump Big Blue's bid up to $65 or $70 per share by threatening to exercise Lotus' poison pill, which IBM is suing to dismantle. Beyond that, "it's basically done," says Paul Johnson, an analyst at Robertson Ste Inc. "It's a matter of price and ing." Lotus' directors, whom I seeking to oust, must meet by Ju to discuss their options. Most they will agree to usher their com with IBM, to the forefront of softw new era.

By Amy Cortese and Ira Sag New York, with bureau reports

LOTUS: 'NO ONE KNOWS WHO'S IN CHARGE'



REORGANIZER: *Braddock started a shakeup*

JOHN S. AB

Credit IBM with impeccable timing: Its hostile takeover bid has caught Lotus Development Corp. at a particularly vulnerable moment. A stunning $18 million first-quarter loss—its first in years—has sent Lotus reeling. Top managers are feuding, and with layoffs looming, employee morale is in the dumps. It's "like a soap opera," says a former executive.

On May 15, a powerful outside director, former Citicorp President Richard S. Braddock, took over an office at Lotus' headquarters to oversee a major cost-cutting program and corporate reorganization. All of Lotus' four business units now report to Braddock—making unclear, say outsiders, the role of Chief Executive Jim P. Manzi. "It's a battlefield," says one former top executive. "No one's sure who's in charge—Braddock, Manzi, or the business heads."

TURMOIL. Manzi declined to comment. Braddock says "there's no tension" between himself and Manzi, who he says is also overseeing the restructuring. But he admits "there's a certain amount of fragility right now" within Lotus. Indeed, sources familiar with the company say Braddock's arrival has tensions running high among senior managers. Lotus has eliminated 32 high-level positions in the past two weeks, and hundreds of layoffs at lower levels are expected during the next few months.

The turmoil began in January, when the company announced a 50% price cut on a new version of its hot Notes program—well before the software was available. The unusual move temporarily killed demand for Notes, contributing to an 18% first-quarter revenue decline. Lotus' top managers were caught off guard, and its investors more so: Lotus shares, which had traded as high as 85 in March, 1994, fell into the low 30s. Two of Lotus' largest investors told BUSINESS WEEK at the time that they would sell their stakes if offered $50 a share.

Manzi, attempting to restore confidence, announced plans on Apr. 19 to cut costs and reorganize the company. Now, Braddock and Senior Vice-President Robert K. Weiler insist things are going as well as can be expected. But Lotus employees are rattled, and there are those among the rank and file who are sympathetic to a takeover by IBM. "To lots of employees, [the bid] is manna from heaven," says Stephen J. Crummey, a former Lotus sales chief.

One of those who is pleased at the prospect may be the single Lotus employee IBM would want most to keep happy—Note inventor and architect Ray Ozzie. Ozzie already has in cated he would welcome Bi Blue's deep pockets, say as ciates of the developer. Ozz has not been happy about t pace at which Lotus has ex panded demand for Notes, these sources say.

LOTUS-EATERS. Another IB sympathizer: Mitchell D. K or, Lotus' founder. Kapor h been gone from the softwar maker for nine years. But a computer-industry elder who once bore a practiced disdain for IBM and its way his support of Big Blue's bi comes as a surprise. "Something decisive had to happen," Kapor says. He calls IBM's offer a "good deal" th management probably should accep

That feeling isn't universal. Ma employees, accustomed to Lotus' relatively freewheeling culture, re main extremely wary of IBM's bureaucracy—and its dismal track record in personal-computer software. Until IBM offers very favorable terms to key employees, "the prospect of working for IBM is ver unappealing," says Tim Davenport a Notes manager who left Lotus May 19.

Manzi clearly concurs. He likely would not be kept on by IBM and i showing signs he'll fight the takeover. On the other hand, Manzi stands to earn a windfall of at leas $73 million on his stock if the deal goes through. He also would be ex tricated from the latest and most d ficult in Lotus' long string of crises Given his choices, he may opt not t oppose IBM's offer for long.

By Geoffrey Smith in Bost

MAKERS AREN'T MPLAINING, BUT...

h demand booming, components are scarce

cques Clay doesn't want to sound greedy. After all, the general man- ger of Hewlett-Packard Co.'s per- -computer operation saw first-quar- C sales jump 60%. But because of ages of everything from memory to monitors, HP couldn't satisfy all lemand. "We could have been doing r," laments Clay. "The component age is clearly hurting us."

s hurting his rivals, too. Almost PC maker is crying the can't-get- -I-want blues. Analysts say Apple puter Inc.'s order backlog has d to $500 million be- it can't find an ade- supply of microproces- —or memory chips, ors, and high-speed CD- drives, for that matter. every bloody thing," s Chief Financial Offi- seph A. Graziano. Acer ica Corp. President ld Chwang figures he ome $30 million in sales, % of Acer's first-quarter because of short sup- No. 1 PC maker Com- omputer Corp., sitting $2 billion inventory, generally unworried— h even it is fretting a possible shortage of ter monitors later this

R-HUNGRY. The prob- f you can call it that: ng demand for person- puters. In January, an- predicted that 1995 PC- ales growth would slow % from 20% in 1994. driven by consumers vant new, more power- achines to play games s *Doom* and to surf the Internet, could jump as much as 30%.

t should be cause for celebra- if only there were enough parts to und. The most critical component rt supply: the ubiquitous DRAM mic random-access memory) chip. root of the memory shortage is Corp.'s relentless price-cutting on ry-hogging Pentium microproces- he brains of IBM-style PCs. In ad- , to run well, Microsoft Corp.'s ws 95 operating software, due out on Aug. 24, needs a hefty 8 megabytes of DRAM—and many consumers want as much as 16 megabytes.

DRAM makers can't ramp up production now because, following a glut several years ago, Japanese makers of the chips decided against building new plants. The result: "We're sold out pretty much through the rest of this year," says Shigeki Matsue, vice-president of NEC Corp.'s Semiconductor Group. NEC's rivals say they're in the same boat.

Other problems? Apple can't get enough PowerPC chips from IBM. Pentium also is boosting demand for static RAM, another memory chip. "We are in the world market trying to get as many as we can get our hands on," says Compaq Chief Executive Eckhard Pfeiffer. Actually, supplies are tight on just about everything—from capacitors to high-speed CD-ROMs. Taxed by robust TV sales in Asia, Japanese makers of cathode-ray tubes can't keep up with demand for PC monitors.

One of the few exceptions: hard-disk drives. PC makers report they're getting enough of that component, but some computer industry execs worry that the situation could change suddenly. "If PC makers turn around and say they need a couple hundred thousand extra drives, they might have a problem," says Gary S. Marks, marketing vice-president of drivemaker Conner Peripherals Inc.

All this is driving up parts prices, at least temporarily. Some PC makers even are paying cash—often more than quoted prices—for parts up to three months in advance of delivery, says Robert Gunn, sales and marketing vice-president at PC circuit-board maker Micronics Computers Inc.

NICE PRICE. Shortages don't look to ease through at least yearend—and through 1996 for DRAMs. So far, the supply problem hasn't inflated PC prices, because companies such as Packard Bell Electronics, HP, and IBM are keeping them low as they push to gain or regain share or enter new markets. "They're really fanning the flames," says analyst Dan Ness of Computer Intelligence/InfoCorp.

Eventually, though, buyers may be forced to accept less powerful models—or pay up for features they need. That could put the brakes on demand, says Bear, Stearns & Co. analyst Andrew J. Neff. Unfortunately, a cure like that is probably worse than the disease.

By Robert Hof, with Kathy Rebello in San Francisco, Gary McWilliams in Houston, and Larry Holyoke in Tokyo

A Paucity of PC Parts

DYNAMIC RANDOM-ACCESS MEMORIES (DRAMs) NEC, Toshiba, Samsung, Micron Technology, and others can't keep up with demand for memory chips to run new software such as Microsoft's upcoming Windows 95

STATIC RANDOM-ACCESS MEMORIES (SRAMs) PCs based on Intel's new Pentium processor need twice as many SRAMs as the previous generation, making it hard for companies such as Motorola, Hitachi, and Cypress Semiconductor to keep pace

MONITORS The booming TV industry sucked up much of the supply produced by NEC, Sony, and others

CD-ROM DRIVES The need for high-speed drives for hot-selling multimedia games has put heavy demands on drivemakers such as Mitsumi Electric and Sony

CHURNING OUT COMPAQ PCs

STEVE PUMPHREY

CASPER GASPER? *These days, a $ million price tag isn't so otherwo*

HOLLYWOOD

CAN EDGAR BRONFMAN SWIM WITH THE SHARKS?

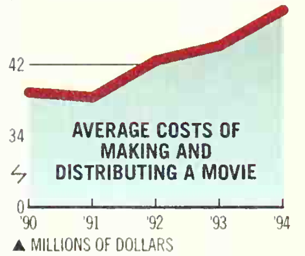
Eye-popping costs are squeezing studio margins

OVITZ: *Pushing the envelope*

He has produced a couple of movies and written a few songs. But the Hollywood education of Edgar Bronfman Jr. apparently began in earnest in the wee hours of June 5. That's when the Seagram Co. chief executive and Michael S. Ovitz, chairman of talent agency Creative Artists Agency Inc., called off their month-long negotiations for Ovitz to run Seagram's newly acquired entertainment giant, MCA Inc. In the end, the issues that kept Tinseltown's premier dealmaker from closing his biggest deal were quintessentially Hollywood—money, control, and ego.

But if Michael Ovitz proved difficult for Bronfman to land, wait until the Seagram scion settles in for a closer look at the economics of the industry he spent $5.7 billion buying into. Partly because of people like superagent Ovitz, Hollywood's salaries are increasing far faster than its revenues—and profits frequently are illusory. "The fact is, the economics of this industry are terribly out of whack," says industry lawyer Peter J. Dekom, a partner in the Beverly Hills firm Bloom, Dekom, Hergott, and Cook. "And they aren't getting any better."

PAINTING TINSELTOWN GREEN



▲ MILLIONS OF DOLLARS

OATA MOTION PICTURE ASSN

Truth be told, Hollywood spending has reached Ramboesque proportions. Last year, the Motion Picture Association of America reports, the industry spent an average of $34.2 million to make a film and an additional $16 million to market it—both figures nearly double the tab of just seven years ago (chart). The result? Despite the growth of cable television and international markets, industrywide operating margins slipped from nearly 10% in 1989 to 6% in 1993, according to investment bankers Veronis, Suhler & Associates Inc.

This year is likely to be even worse. While the box office is just 1.5% ahead of last year, spending is surging faster than the runaway bus in *Speed*. Actress Sandra Bullock, who got $250,000 to star with Keanu Reeves in that flick, will collect $6 million from Warner Bros. Inc. for the upcoming *A Time to Kill*. Demi Moore is getting $12.5 million from Castle Rock Entertainment for *Striptease*. Sylvester Stallone has signed a $20 million contract for a Savoy Pictures Entertainment Inc. opus that doesn't yet have a script. "Everyone is making a bet that they can get the one that beats the odds and is a hit," Armyan Bernstein, chairman of film ducer Beacon Communications.

Bronfman doesn't have to look r farther than his own back lot to that. Profit margins at MCA's $2.7 lion film unit, its largest single busi fell to 4% last year, down from 7 1993. This summer, the studio wil lease two films with $50 million gets, *Casper* and *Apollo 13*, and ready is anticipating tak write-down for Kevin Cost $175 million *Waterworl* July, the company will shooting the $75 million *light*, for which Stallone collect $17 million and 1 of revenues.

Could Ovitz have much to hold MCA's cost line? It seems doubtful. odds that a Costner or a lone would sign with Ovit less than his going rate are low. "It much easier to say yes than no in business," says *Forrest Gump* prod Steve Tisch. "Good talent wants t fairly compensated, and if one st won't pay, another will." With some MCA talent already considering bol Hollywood sources say, Bronfman sought to calm the situation by pro ing to keep the company's current n agement intact.

"NO PLAN B." As for MCA's CEO vac Bronfman told company executive a recent meeting that "there's no B." Names such as former QVC C man Barry Diller and Warner Bros CEO Terry Semel continue to sur But Bronfman's next big deal likely be to sign DreamWorks SKG, the studio being set up by Steven S berg, David Geffen, and Jeffrey zenberg, to a new contract. Sou close to DreamWorks say Geffen is gotiating an agreement that would MCA the right to distribute DreamW films, music, and TV shows, as well use any of its new characters in theme parks. A DreamWorks ac could be completed by late June, sources say.

That would be a sweet deal if it off. But Bronfman will need more a DreamWorks link to make MCA a ner. His failure to land Ovitz, walked away from an offer of more $200 million, taught him just how big money goes in Hollywood t days: not very.

By Ronald Grover in Los An

(LEFT TO RIGHT) PHOTOGRAPHS BY PHOTOFEST. SCOTT DOWNIE/CELEBRITY PHOTO. CHART BY ALAN BASEDEN

NNING R THE GANGSTAS

ctivist takes her anti-rap campaign to the boardroom

body's beautiful,
m thinkin' rape.
bed the bitch by her mouth,
her down on the couch.
begged in a low voice:
ase don't kill me."
her throat
watch her shake like on TV.
to Boys, *Mind of a Lunatic*

e meeting was in Time arner Inc.'s plush New ork corporate suites, but lk focused on lyrics from ean streets of gangsta rap- C. DeLores Tucker, the 67- ld head of the National Po- Congress of Black Women, d Warner Music Group nan Michael J. Fuchs sev- ics from Time Warner label lings that she views as demeaning to women. this out loud," she insist- 'll give you $100 to read chs demurred.

entertainment industry etter get used to this talking minister's daugh- om Philadelphia. A vet- f the civil rights and fem- movements, Tucker has ed with Martin Luther r. and Gloria Steinem. She e the nation's top-ranking Af- nerican state official when Penn- ia Governor Milton J. Shapp her Secretary of State in 1971. or the past three years, she has attling the companies that peddle bums extolling sexual violence t women.

TUCKER: *Picketing the houses of Time Warner execs?*

PULPIT. Now, Tucker's campaign ing clout. Former GOP Education ary William J. Bennett has joined se in an unlikely alliance. (Tuck- agrees with him on just about hing else, from affirmative action control.) And Senate Majority Bob Dole (R-Kan.) also is get- hind her campaign. Tucker is us- newfound bully pulpit to send a blunt message to the entertainment industry. "They're pimping pornography to children for the almighty dollar," she roars. "Corporations need to understand: What does it profit a corporation to gain the world but lose its soul? That's the real bottom line."

Time Warner executives say they're willing to consider the issues behind the group's complaints. But they gripe that they're being unfairly singled out for criticism by opportunistic politicians, even though foreign companies such as Germany's Bertelsmann produce more gangsta-rap recordings than they do. And some Democrats charge that the GOP is singling out Time Warner because of its past support of Democrats.

Unfazed by criticism, Tucker in recent weeks has gone for Time Warner's jugular: She took the floor at its May 18 shareholders' meeting in New York to blast the company as "devoid of social conscience and citizen responsibility." In late May, Tucker and Bennett launched TV ads attacking Time Warner. The campaign runs in Los Angeles, New York, San Francisco, and Washington, urging parents to "make [Time Warner] feel the heat." On June 4, she demanded the firing of Warner Bros. Records Chairman Danny Goldberg, who called such detractors "a bunch of middle-aged people who don't like the music."

PLASTIC HANDCUFFS. Now, Tucker is threatening to picket the suburban houses of Time Warner execs. "We will march in their neighborhoods and let their neighbors hear the music," she vows. There's also talk of a boycott of Time Warner music, movies, and cable-TV properties. She plans similar tactics against Bertelsmann and other gangsta-rap purveyors.

Tucker may prove a formidable opponent. Since declaring her war of values in September, 1993, she has been arrested twice for blocking access to music stores that sold albums by rappers such as Snoop Doggy Dogg and Tupac Shakur. In her downtown Washington office, she proudly displays a pair of plastic handcuffs that were used to take her into custody—under a photo of her with King during his famous Alabama march from Selma to Montgomery in 1963.

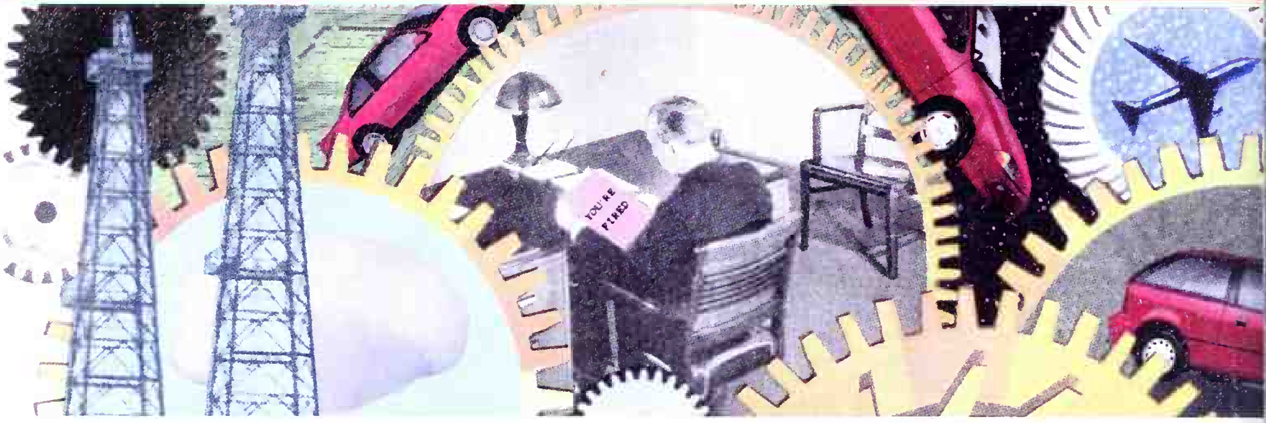
Tucker has her critics. One prominent Pennsylvania Democrat calls her "an opportunist looking for anything that'll get her back in the spotlight." Other Democrats contend she is being used by conservatives to promote "family values" as a 1996 campaign issue.

Nonsense, insists a longtime friend, Democratic National Committee Chairman Donald L. Fowler. "DeLores Tucker is nobody's fool," he says. "She's a dedicated Democrat who is doing something that 99.9% of Americans agree with." Time Warner shows no sign of caving in. But with Tucker involved, it's sure to face the music.

By Richard S. Dunham in Washington, with Michael Oneal in New York

"They're pimping pornography to children for the lmighty dollar. Corporations need to understand...."

BARBARA RIES



THE ECONOMY

THE JOB MARKET ISN'T REALLY IN THE DUMPS

Gung-ho gains in new industries may be offsetting losses

The latest employment numbers show a surprising loss of 108,000 jobs over the past two months, the biggest drop since May, 1991. Is the job market about to slide into the pits again?

The answer depends on the outcome of a massive tug-of-war that's taking place in the labor market. On one side are the new economy's core industries, such as entertainment, education, computer services, communications, and consulting, which are adding workers at an astonishing clip (chart). On the other is the underbelly of the old economy, where job-shedding continues with fervor. Employers announced almost 60,000 job cuts in May. And the GOP's planned cuts in federal spending will increase the losses. The result: an economy precariously balanced between growth and recession.

CASTING CALLS. Despite the numbers, the latest news from the front lines of the labor market shows that the forces of job creation have an edge. For evidence, just look at the strong market headhunters are facing (page 43) or the continued heavy recruiting on college campuses. If the economy were slowing, "the first place companies [would] turn off the spigot is new hires," says Patrick Scheetz, director of the Collegiate Employment Research Institute at Michigan State University.

Who's hiring? In recent months, entertainment has become the biggest job creator, accounting for 40% of all growth. Moviemakers, casinos, and interactive-game developers are hiring at a rate of 465,000 annually, twice as much as a year ago. The actual number may be far higher: Actors, directors, and screenwriters are often engaged as independent contractors for a particular project, which means they don't show up in the government's payroll data.

The consulting business also has been on a spree since Jan. 1. Consulting firms are growing at an astounding rate of 120,000 jobs annually, as Corporate America looks for help reengineering itself. The consulting arm of Ernst & Young will hire 1,200 this year, an increase of more than 30%. "We plan to continue at this rate for the next two to three years," says Bob McIlhattan, an E&Y partner. Another job generator: education. With elementary and high school enrollment rising by 1 m students a year, demand for new t ers and school support staff is than offsetting any cutbacks in government.

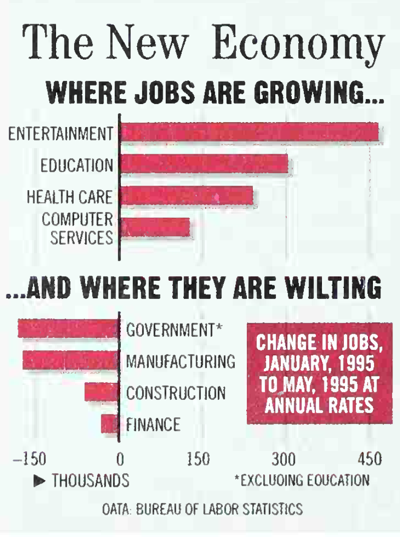
VROOM, VROOM. Even some mar turers are adding workers, despit slowing economy. Harley-Davidsor is boosting its factory and engine ranks faster than last year—d equally by strong overseas and don demand for its motorcycles. And S Corp. in Streetsboro, Ohio, a mak plastic toys, is just completing a plant in Perrysville, Ohio. That wi quire 150 additional workers, says ident Thomas G. Murdough Jr.

Still, jobs are disappearing almc fast as they are being created—anc shows up in the numbers. Job loss concentrated in the usual cyclical i tries, which have only cautiously a new workers during the recovery downdraft is coming in financial ser government, and those parts of n facturing that are still downsizing. includes the planned elimination most 30,000 jobs by NASA over the five years as well as the loss of 5,000 positions brought about by Financial Corp.'s acquisition of in Continental Corp. Also, Boeing C cutting 12,000 jobs this year alone

Almost all nondurable manufact is also shrinking. In the chemical i try, employment has dwindled d the past year despite the strong e my and high profits. The trend sl continue, says Kent A. Dolby, a ma ing partner at Andersen Consultin chemical companies try to improve efficiency by "eliminating a lot of lo value-added tasks."

So far, job creation in growing i tries is managing to offset the losse the two parts of the economy pu opposite directions, the message fo seekers is clear: Be optimistic, but on for a bumpy ride.

By Michael J. Mandel in New with bureau reports.



DATA: BUREAU OF LABOR STATISTICS

ILLUSTRATION BY VICTORIA KANN. CHART BY ALAN BASLDEN

IE MORTGAGES

CK TO E BANK

rush to trade in stable mortgages

o years ago, Jim Riedel found
ortgage manna—a one-year ad-
stable rate, starting at 4.5%, on
ıse in Seal Beach, Calif. The prob-
Rates went up, and so did his
age payment. With his rate sched-
;o hit 8.5% this month, Riedel
another trip to his mortgage bro-
ınd came home with a loan locked
8% for the next five years. His
;s: $140 a month. "I thought it
perfect sense," he says.

refinanciers are back, lured by a
ı the going rate on a 30-year fixed
age from more than 9% in Janu-
7.5% in some parts of the country
ıe 6. A month ago, refinancings
ented 11% of total loan volume;
ıey're at twice that level, accord-
the Mortgage Bankers Assn. "It's
ınd day between now and a year
ays Michael P. Hindman, a mort-
roker in Houston.

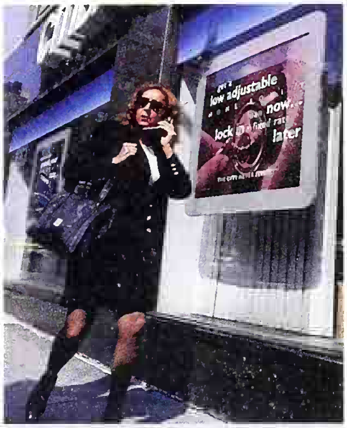
Refi madness it isn't—at least not yet. In 1993, when 30-year fixed rates dropped to 6.8%, a 20-year low, consumers refinanced their homes to the tune of $555 billion, 55% of all mortgage issuances. This year, the MBA expects refinancings to reach a relatively modest $126 billion. If 30-year rates fall to 7.5% nationally, says MBA chief economist David Lereah, refis could hit an annual rate of $231 billion.

JUMPING IN. Most of the demand, brokers say, is coming from homeowners who took on adjustable loans last year and now face their first annual rate increase. "A year ago, people thought these were the best thing since sliced bread," says Philip E. Lipp of Allwest Mortgage in North Hollywood, Calif. "Now their adjustables are higher than market rate."

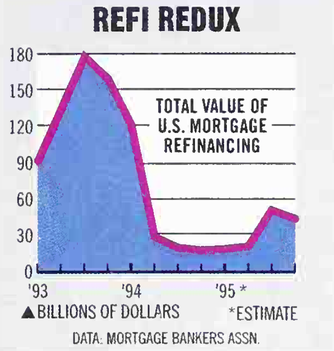
Indeed, the effective rate on a standard 30-year, fixed-rate mortgage at Countrywide Credit Industries Inc., the country's largest mortgage banker, is now 7.9%. That's well below the 8.6% effective rate—the rate Countrywide figures a consumer will pay, on average, over the life of an annually adjustable loan starting at 6%.

Also feeding the market are homeowners who missed the 1993 refinancing boom. By the time Jim and Sandi Price decided to refinance their Chicago home two years ago, rates already were climbing back up. "I wondered if I would ever get another opportunity," says Jim, an advertising copywriter. Bingo: In May, the Prices found a 30-year mortgage at 8.25%. This time, they grabbed it.

By Nanette Byrnes in Los Angeles, with Ann Therese Palmer in Lake Forest, Ill.



LOAN IMPROVEMENT: *Rates are sliding*



DATA: MORTGAGE BANKERS ASSN.

ɪUITING

HAVE D TO HOLD

hunters beware– oyers are fighting back

id R. Brousell was almost out
e door. He was set to resign in
oril from his job as director of
; research for Sentry Publishing
small Massachusetts publisher.
'ork-based Ziff-Davis Publishing
l offered him new duties oversee-
startup magazine, a larger staff,
pay raise. What happened when
lered his resignation still amazes
ll, 42. His employer made an un-
ed counteroffer too good to re-
oday, Brousell is Sentry's new-
-president—with an equity stake.
nost knocked me for a loop,"
ll says. "I expected a goodbye."
r years of downsizing, employ-
reasingly are one-upping head-
; trying to poach top-notch man-
Companies have long fought to
ı to their CEOs, of course. But
cruiters say, counteroffers more
re being used to retain middle

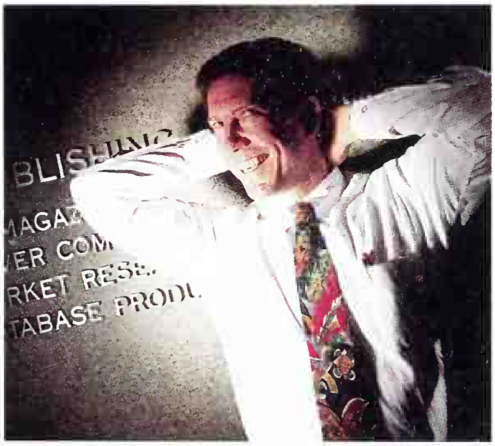
managers. "Our position is: We'll do everything we can to find, attract, and retain the absolute best employees," says Jim Hebe, CEO of Freightliner Corp., a Portland (Ore.) truckmaker that in the past couple of years has begun routinely making counteroffers. "We'll fight tooth and toenail to keep them."

BIDS. There are no nationwide figures on counteroffers. But search firm Boyden Consulting Corp. says about one in seven candidates now is retained by counteroffers, vs. few before. "The incidence and intensity of counteroffer activity has never been higher in the history of our company," says Gary Williams, a vice-president at Cleveland-based Management Recruiters International Inc.

A major factor in the rise: Restructuring has left management ranks razor thin. Plus, the job market in general is tight. Unemployment during the 1990-91 recession never got higher than 7.8%—vs. a 10.2% rate during the 1982-83 recession. The scarcity of good managers has driven up executive search fees, which run up to 33% of a first year's salary, plus headhunter's expenses. Add to that an average of $50,000 for relocation, and a counteroffer is often cheaper than recruiting a replacement.

Headhunters are fighting the trend. One strategy: point out to employees that they wouldn't have considered taking a new job at all unless they were unhappy in some way. Allen Salikof, president of Philadelphia-based Management Recruiters of Cherry Hill Inc., mails search candidates a list of 10 reasons not to consider a counteroffer. "We're getting in early and hitting hard," he says. "It kills our business to go all the way to the altar and not get married." Maybe so. But employees such as Brousell have found that looking before you leap isn't such a bad idea.

By Gary McWilliams in Houston



SENTRY'S BROUSELL: *No place like home*

(TOP TO BOTTOM) PHOTOGRAPHS BY STEPHEN FERRY/GAMMA-LIAISON, RICHARD SCHULTZ CHART BY ERIC HOFFMANN/BW

STRATEGIES

A NEW POWER PLAY AT W.R. GRACE

The fate of its health-care unit hangs in the balance

Who's really running W. R. Grace & Co. these days? The new guy, Albert J. Costello, is chairman and chief executive officer. But behind the scenes, Constantine L. Hampers—whom Costello beat out for the top job—appears to be dictating one of the fractious company's most critical decisions.

Hampers heads National Medical Care Inc., the health-care company he co-founded and then sold to Grace. On May 4, he offered $3.5 billion to buy NMC back. Costello responded to the unsolicited bid by promising shareholders to sell the unit to the highest bidder or consider a spin-off.

Shareholders long have hoped for such a restructuring, and word of Hampers' offer sent Grace shares up 10%. Indeed, the likely breakup of Grace was viewed widely as a happy consequence of the turmoil that followed the ouster of former CEO J. P. Bolduc in March. Investors hoped Hampers' offer would flush out other interested buyers for NMC, which, while highly profitable, never has fit well with Grace's core chemical operations (chart). Instead, there has been a deafening silence.

Why? One reason is the hefty tax liability that a sale would entail—an estimated $860 million or more. To justify an outright sale of the unit, Grace needs an offer higher than Hampers' $3.5 billion. That's why many of Grace's advisers and investors favor a spin-off. But another reason, say sources close to the company, is the central role in any deal of Hampers himself—a role that may be precluding a competitive auction of the subsidiary.

ULTIMATUM. In lining up backing for his bid, Hampers reportedly has solicited commitments for financial participation from 70 NMC executives. He has informed Grace that if the unit goes to a higher bidder—or even if it is put on the block—he and other top managers will leave, according to numerous sources. Hampers did not respond to calls or faxed questions. His attorney, Paul Brountas, declined to comment on the prospect of such resignations.

Vivra Inc., one company that is interested in bidding on NMC, thinks Hampers' influence extends as well to information flow. Kent J. Thiry, president and CEO of the Burlingame (Calif.) company, complains that he has not had access to the same internal Grace data Hampers has used to line up financing. Brountas says, "my understanding is that information will be made available to all interested bidders," dismissing Vivra's complaint. Thiry responds: "What we're saying is that if you share data... we may have a better deal for [Grace] shareholders."

It may well. Although Vivra is small, with 1994 revenues of $284 million, it has financial backing from Bain Capital, Texas Pacific Group, and Hellman & Friedman, all management buyout firms with solid track records; and Morgan Stanley corporate finance chief Jo Perella is raising more financing. T group says its bid could be wort a extra $500 million to Grace sharehol

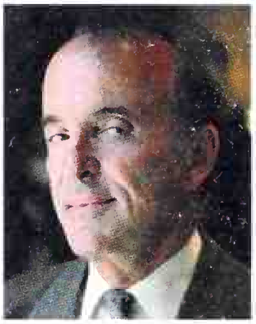
Grace says it will entertain se offers for NMC. Until then, it is eva ing Hampers' bid with the aid of M Lynch & Co. and CS First Boston. bets, though, are that Costello ultin ly will recommend a spin-off to Gr directors, who are ex ed to meet on June 14 vestors point out th spin-off could work in favor: They'd benefit the upside potential in arate stocks that Cost they say, would be h pressed to deliver Grace in its current f And shedding NMC qu would free Costello to on boosting the chem company by cutting cos selling other units.

Hampers could win a spin-off, too, likely re ing control of the com he started 27 years ag has said he would supp spin-off and "under ce conditions" would serv CEO. Sources say Hampers is deman options for as much as 15% of the company for himself and his manag

HAMPERING EFFORTS? Some share ers acknowledge the hand that H pers holds. With NMC's manage talent lean, they say, Hampers is cial to the unit's continued success. a very delicate task," says one. the fox in the henhouse, and ou parties are going t frustrated by the cess." Charged with turning value to sh holders, Costello Grace's board hav keep Hampers happ he stays on long en to complete the spin

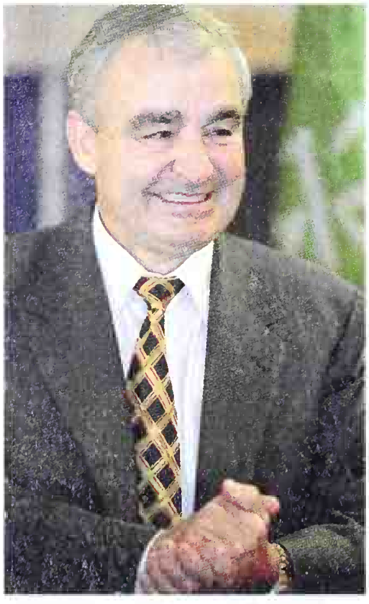
Sources close to company downplay H pers' power. "There lot of alternatives Hampers running company," says one. board of directors the driver's seat." haps. But Hampers pears to be a very pelling backseat driv

By Gail DeGeor Miami, with Eliz Lesly and Leah Nat Spiro in New York



SNUBBED

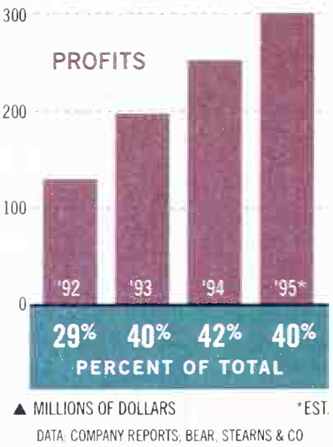
Passed over for CEO, Hampers now wants National Medical—and he's offering $3.5 billion



COSTELLO: *Smile or grimace?*

GRACE'S MONEY MACHINE

OPERATING PROFITS FOR W.R. GRACE'S NATIONAL MEDICAL CARE SUBSIDIARY AND PERCENTAGE OF TOTAL COMPANY PROFITS



DATA: COMPANY REPORTS, BEAR, STEARNS & CO

TOP TO BOTTOM: PHOTOGRAPHS BY SHERMAN ZENT/THE PALM BEACH POST, BOB SHANLEY/PALM BEACH POST, CHART BY RAY VELLA/BW

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Bank of America

COMMENTARY

By John Carey

THROWING MONEY AT SCIENCE JUST CREATES A MONSTER

It's one of the rites of spring in Washington—scientists crying wolf over federal funding. Every year, as Congress crafts a new budget, the research community proclaims that the crippling of American technology and competitiveness is at hand. Their beef: disappointing increases for the National Institutes of Health, National Science Foundation, and other sacred research agencies.

The howling is especially intense this year. Instead of merely curbing growth in the science budget, Congress aims to take an unprecedented chunk out of the $50 billion federal research and development edifice. Republican plans would ax more than $2 billion in technology and energy programs, cut hundreds of millions from the NSF, and even shrink the NIH's $11 billion budget by up to 5%. Technopundits predict catastrophe. "These budgets will absolutely destroy the infrastructure of science and technology," says Mary L. Good, head of the Technology Administration at the Commerce Dept.

PHILLIPE LARDY

The lab budget could be sliced in half—without crippling science

Well, not necessarily. Rather than killing American science, drastic cuts could be just the painful medicine the whole enterprise needs. The sad truth is that federally funded research has mushroomed into a grossly inefficient system, hampered by bloated bureaucracies and rising mediocrity. Downsizing "is a golden opportunity," says materials scientist Rustum Roy of Pennsylvania State University.

"A DISGRACE." For example, there are four layers of bureaucrats overseeing the Energy Dept.'s 20 major laboratories, notes former NSF director Erich Bloch. "It's a disgrace," he says. Former Motorola Inc. Chairman Robert W. Galvin, who headed a recent study of the 10 biggest labs, suggests wholesale reform could slice their $6 billion lab budget in half—without touching the science at all.

But taming bureaucracies is only part of the solution. Today's R&D Establishment, based largely on academic scientists receiving government largesse, is a Malthusian nightmare come true. Its institutions sprang out of the gangbusters growth years of the 1950s, '60s, and '80s. And everyone has come to depend on ever-growing budgets.

Over a typical career, an academic scientist cultivates 15 new PhDs—most of whom eventually clamor for federal grants to start their own labs. The resulting system, like the insatiable plant in *Little Shop of Horrors*, only stays healthy when Uncle Sam responds to its incessant demand: "Feed me." Science already is suffering as a result. "Instead of spending my time doing physics, I now spend my time trying to raise funds," says California Institute of Technology physicist David Goodstein. "That change threatens the future of science."

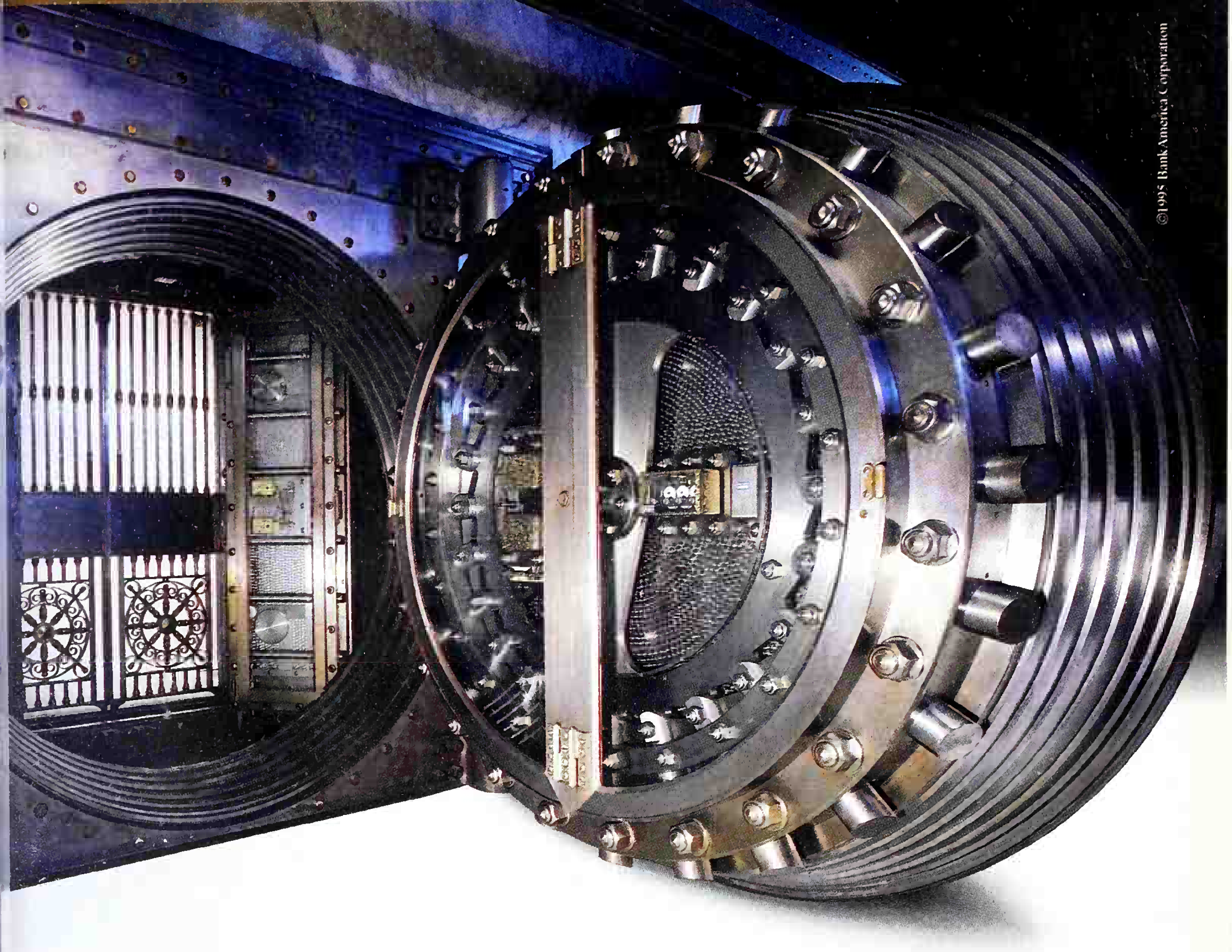
The solution isn't more money. I stead, the science community need to overhaul a system fated to produce more aspiring scientists than Uncle Sam can support. That does necessarily mean training fewer n PhDs. Rather, "not every PhD should be at a university," says Bloch. "Some of them should go t work." At the very least, PhD training should be broadened to make new grads more attractive to industry.

ARTICLE OF FAITH. Fixing the system also means grappling with one of science's dirty secrets: Man researchers aren't worth of funding. "It's a small elite that does most of th work," says Caltech's Go stein. The obvious policy implication: Identify and reward this scientific elit while being careful to nu ture the best young talen Then ruthlessly trim fund ing for the also-rans in u versities and government labs. Painful, yes. But it's no different from the dow sizing already forced on t business world. The resul would be both billions in savings and better resear

In all the current wailin over the GOP budget prop sals, you won't hear leade of American science admit that the system needs fixing. "They have a almost mystical faith in continued e pansion," says Representative George E. Brown Jr. (D-Calif.), former chairman of the House Scienc Committee.

Of course, the GOP has an almost mystical faith in cost-cutting; it shouldn't be trusted to downsize sc ence effectively. But its proposals should be a wake-up call. If they really don't want U.S. science and technology to be crippled, scientist should stop bellyaching and start healing themselves.

Carey reports on science policy from Washington.



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ACCESS TO GLOBAL CAPITAL MARKETS FOR A BANK IN ASIA

(We Open Doors)

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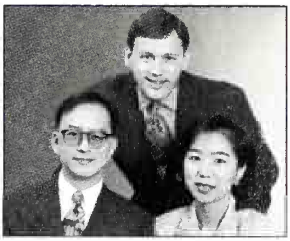
Our client had the benefit of relationship officers specializing in financial institutions and global syndications.

Bank of America



In Business This Week

EDITED BY KEITH H. HAMMONDS

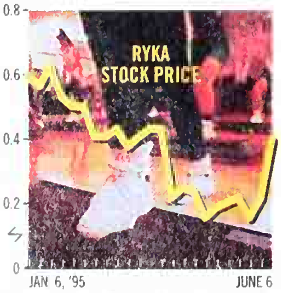
YER OUT OF THE GAME, MORRIS

FOR MONTHS, JUSTICE DEPT. officials have huddled around their VCRs during working hours, intently studying reruns of Atlanta Braves baseball games and 49ers gridiron contests. Slackers? Hardly. They've been looking for evidence that Philip Morris was violating the 24-year-old ban on TV cigarette advertising. After finding apparent violations in the form of telegenic billboards placed strategically in ballparks and arenas, the government and the tobacco giant announced on June 6 that the signs will no longer be visible to TV viewers. Philip Morris has admitted no fault. Nonetheless, its Marlboro Man has lost his front-row seat next to the scorer's table at Knicks games.

CLOSING BELL

RYKA'S REPRIEVE

Troubled women's athletic shoemaker Ryka finally found its Prince Charming, in the guise of Michael Rubin, a 22-year-old Philadelphia entrepreneur. Rubin heads KPR Sports International, a privately held footwear distributor claiming 1994 sales of $27 million. He will give Ryka loans and other credit facilities worth $8 million in return for up to 40% of Ryka stock. The deal, which came five weeks after a pact with L.A. Gear collapsed, buoyed Ryka's stock, which had been nearing zero. And it kept founder Sheri Poe employed: She remains Ryka's chief spokesperson and a board member.



DATA: BLOOMBERG FINANCIAL MARKETS

(L TO R) PHOTOGRAPHS BY BRIAN SMITH. PAUL F. GERO/SYGMA

STREET CHEERS FOR KMART'S NEW CHIEF

HEADHUNTER THOMAS NEFF says he didn't expect Floyd Hall, who had turned down past overtures, to be interested in the job. He phoned the former Target Stores and Grand Union executive on Apr. 24 to toss around the names of retailing executives who might be right to head Kmart, his client. At conversation's end, Neff asked casually: "What about you?" To his surprise, Hall said he'd think about it. A month later, on June 5, Kmart announced that Hall had accepted the post of chairman, CEO, and president, succeeding deposed chief Joseph Antonini. Wall Street's initial reaction: Floyd Who? Its next reaction: We like Floyd. Investors sent the troubled retailer's stock up 18% over the next two days.

AT THE IRS, IT'S SIMPLIFY, SIMPLIFY

THE INTERNAL REVENUE SERVICE is promising to make paying taxes a little easier—and $1 billion less expensive—for small business. President Clinton planned to announce on June 9 a streamlined filing process as part of his vaunted Reinventing Government campaign. Among the changes: one-stop filing for small companies' tax and wage reporting. Businesses would have to file such data just once, to the Social Security Administration, which in turn would pass the information on to the IRS and the necessary states.

KKR IS HOOKING UP TO TELECOM

KOHLBERG KRAVIS ROBERTS, better known for its investments in such prosaic industries as food and supermarkets, is going high-tech—after a fashion. The buyout firm is plunging into telecommunications, with a $475 million buyout of Rockwell International's Reliance Comm/Tec unit. KKR says Comm/Tec, which had 1994 sales of $458 million, should prosper from the telecommunications industry's bulging investment in infrastructure, especially with its digital loop carriers that link fiber-optic cables with old copper wires. If the acquisition seems racy by KKR's traditional standards, Comm/Tec has its prosaic side, too: Most of the unit's sales come from old-line, stable businesses.

HEADLINER: GEORGETTE MOSBACH

TO LONDON, TO MEET THE PRINTS

Can ex-Washington A-lister Georgette Mosbacher find happiness in floral prints and Victorian taffeta? On June 4, the wife of former Commerce Secretary Robert Mosbacher announced she wants to buy Laura Ashley Holdings, the London-based chain of English country-style clothing and furnishings stores.

Laura Ashley could use help: It has lost money in each of the past four years, dropping $49 million in 1994 alone. And Mosbacher, 48, is something of a turnaround artist: She bought La Prairie, a Swiss cosmetics company, in 1988 and sold it three years later $45 million, reportedly reaping a hefty profit. S now runs Georgette M bacher Enterprise which sells a co metics line called Exc sives on th QVC home shopping net work.

Laura Ashley doesn't want to de though. Sir Bernard Ash the founder's widower an the company's largest sha holder, says he won't sell his 34% stake. A spokesman for PaineWebber, M bacher's adviser, says she will do nothing against shareholders' wishes.

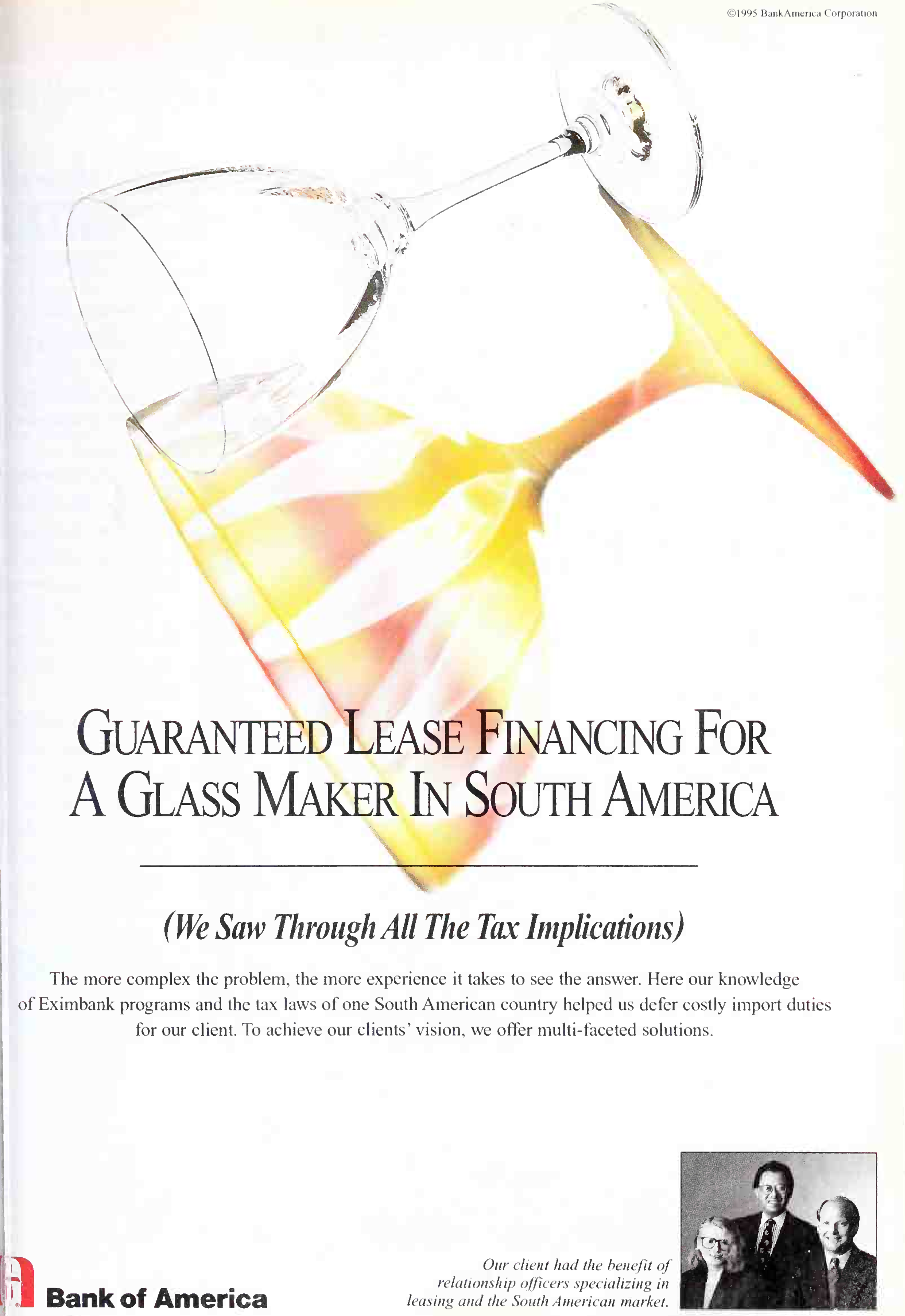
By Mark Leu
in Washing

EXPRESS ONE IS IN A TAILSPIN

EXPRESS ONE INTERNATIONAL, the airline Bill Clinton chartered for his 1992 Presidential quest, has been grounded. On June 5, followi threat by the Federal tion Administration to re its operating certificate, press One filed for Cha 11 bankruptcy protec grounding its 39 planes laying off 1,100 of its workers. BUSINESS WEE ported safety problems a 15-year-old carrier last vember, and in late May company failed to prov the FAA that certain air parts were airworthy.

ET CETERA . . .

- ■ Jeffrey Greenberg, s chairman Maurice, resi as a top officer of insurer
- ■ After months of semip talks, Electronic Data tems will buy A. T. Kea
- ■ An appeals court up the 17% reduction in cabl rates ordered last yea the FCC.
- ■ Caterpillar lifted its dend by 40% and author a big stock repurchase.



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Our client had the benefit of relationship officers specializing in leasing and the South American market.

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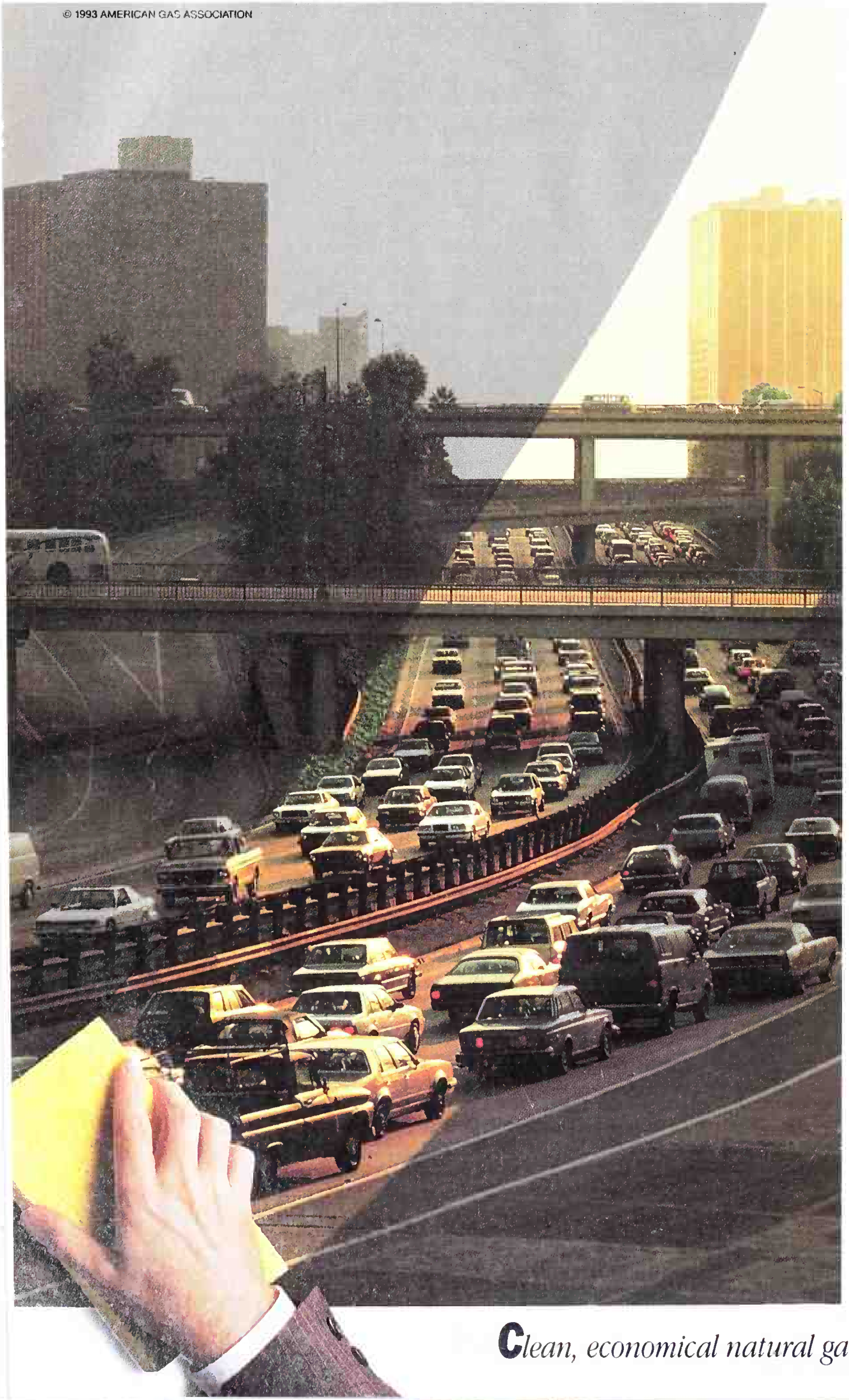
Don't you wish we could just do this to air polluti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In a way we can—
because cars and trucks th
run on natural gas reduce
emissions that cause smog
80%—and virtually elimina
soot.

The fact is, natural ga
the cleanest burning altern
fuel available today.

And the least expensi

30% less expensive pe
than gasoline.

Because it's so clean,
natural gas also cuts main
nance costs. Oil changes a
tune-ups are cut in half, an
there is less engine wear.

Small wonder that the
are thousands of natural ga
cars and trucks on America
roads today.

With more being built
Chrysler, Ford, and Genera
Motors every day.

If all fleet owners –
companies and communiti
–across the country would
switch to natural gas as the
replace cars and trucks, it w
really make a difference in
our air.

A breathtaking differe

Clean, economical natural gas. Think what we'll s

ashington Outlook

ED BY OWEN ULLMANN

G LABOR'S
NTRACT ON NEWT

sident Clinton isn't the only one who has had to rein-
nt himself in the wake of the Republican takeover of
pitol Hill. Leaders of the U.S. labor movement—whose
ng clout has all but vanished—have been shocked into
ical makeover of their own.
move to oust AFL-CIO President Lane Kirkland is
he most visible sign of the ferment within Big Labor.
ntled unions are crafting feistier forms of political ac-
a last-ditch effort to help Democrats
ure Congress. For labor, "this could
a reinvigoration," says Gerald W.
ee, president of the American Federa-
State, County & Municipal Employees.
ST. Despite labor's vaunted reputation
tics, unions admit that for years they
lone little more than make donations
st-minute calls soliciting member sup-
r endorsed candidates. They've relied
yists to influence Congress while fail-
employ members to pressure officials.
, unions are starting grassroots cam-
to provide members with continual in-
ion on issues and lawmakers' positions.
e staging sit-ins and other militant
ts against GOP lawmakers. Some un-
en plan to withhold money from the
ratic Party when it finances candidates
nore labor's agenda. Labor must adapt,
ervice Employees President John J.
ey, "a new attitude toward rewarding our friends and
ing our enemies."
tics note it will take more than a change in tactics to
years of ebbing influence. But despite its dwindling
of U.S. workers, the 16 million-member movement
ll marshal legions of activists and contributors.
most ambitious plan to unleash this potential is the '95
, which could form the nucleus of the AFL-CIO's political strategy when Kirkland leaves. The AFL-CIO rejected overtures by McEntee, who's leading the effort, to sign on. While unions in the past did little to coordinate political strategies, more than a dozen have joined this project, pitching in $1.5 million for 1995 alone. Past drives concentrated on congressional districts with the most union households, but this one will target the most vulnerable GOP lawmakers—20 freshmen who won by small margins in districts that Clinton carried in 1992. By mid-June, field coordinators will generate mailings, talk-show calls, and letters to editors, detailing incumbents' votes on issues like education.

CLINTON: *Labor's love lost?*

IRA WYMAN/SYGMA

NO MORE NAFTAS. The United Brotherhood of Carpenters & Joiners has also started a $1 million campaign to turn members into political activists in GOP districts. Although Democrats captured 63% of the union vote last fall, turnout by organized labor was low. "If we can get people out who didn't vote before, we can make a difference," says Carpenters' President Sigurd Lucassen.

Union leaders hope the early grassroots organizing will not only elect Democrats but keep them loyal—avoiding a repeat of 1993, when a Democratic President and Congress passed the North American Free Trade Agreement over union opposition. And with business donors shifting to the GOP, Democrats in '96 may feel beholden to labor as unions contribute a bigger share of campaign cash.

Certainly, problems remain. Labor is still dominated by aging white men often out of touch with growing ranks of women, minorities, and younger members. And much of today's public rejects its traditional New Deal agenda. Still, even critics credit Newt Gingrich's GOP Revolution for one thing: forcing labor chieftains to adapt to the new times.

By Susan B. Garland

APITAL WRAPUP

REAKS FOR BUSINESS?

White House is mulling a new
k on corporate tax breaks but is
on what to do with the extra rev-
Some officials would aim for
er deficit reduction, while others
to finance bigger middle-class
its than Clinton proposed in
uary. That plan—a child credit,
reaks for education, and expand-
dividual Retirement Accounts—
l cost $100 billion by 2002. Any
on would still be less than the
e GOP's $350 billion cut.

REPUBLICAN RAINMAKER

▶The Republican National Committee has tapped a new finance chairman: San Francisco businessman Howard Leach, a GOP fund-raiser with ties to former President Ronald Reagan. Leach's financial empire includes agribusiness, timber, and an investment firm. In 1992, he was President Bush's top Western fund-raiser. The appointment is a blow to the Presidential campaign of California Governor Pete Wilson: Leach raised $9.4 million for Wilson's 1994 reelection.

SANCTIONS PLAY IN PEORIA

▶U.S. Trade Representative Mickey Kantor frets that opinion-setting elites around the world are siding with Japan against the U.S. vow to double tariffs on Japanese luxury cars. But mainstream America is cheering the Clintonites on. A May 22-26 nationwide survey of 1,000 recent voters by EPIC/MRA of Lansing, Mich., found that 71% favor the sanctions as a way to force Japan to open its market to U.S. cars and auto parts. Only 20% oppose the tariffs.

A WALL STREETER MAKES HIS DEBUT ON THE WORLD STAGE

U.S. Treasury's Bob Rubin faces his biggest test as the G-7 nations convene

The decision came on May 30 in a phone call to Federal Reserve Chairman Alan Greenspan. It was time, Treasury Secretary Robert E. Rubin told him, to spring a trap on the market bears driving down the dollar. Traders were testing the Treasury chief to see if he would defend the greenback—or stay on the sidelines, as he had when the dollar swooned in April.

This time, Rubin found compelling reasons to move. With the Group of Seven economic summit just weeks away, the credibility of the U.S. with its trading partners was increasingly at stake. And Rubin's instincts—formed during 26 years on the trading floor at Goldman, Sachs & Co.—told him that a moment had come when intervention could move the market.

So on the morning of May 31, the Federal Reserve Bank of New York led a sweep through the currency exchanges. The U.S. and 11 other nations dumped up to $1 billion worth of yen and marks. Shell-shockeD bears scrambled to buy dollars, fueling a 3% rally.

Chalk up another exercise in crisis management for Bob Rubin. In five months as Treasury Secretary, he has crafted two rescue plans for the Mexican economy, weathered two sharp runs on the dollar, and endured attacks on Treasury's law-enforcement agents in Oklahoma City and Washington. In the process, he received mixed reviews—from applause for his handling of Mexico's bailout to hisses in Germany and Japan for failing to bolster the dollar.

MEXICO PHOBIA. Now, his ability to manage the Clinton Administration's economic policy is facing a crucial new test. As President Clinton and leaders from other G-7 industrial nations prepare for their 21st summit, in Halifax, N.S., on June 15-17, an array of potential crises confronts them. Growth in the U.S., Europe, and Japan is slowing. The fear that "another Mexico" will trigger market chaos hangs over the financial system. To top it off, the cooperation shown in the May 31 currency intervention masks deep rifts between the U.S. and its allies—from the dispute over auto parts with Japan to anger about Rubin's earlier hands-off approach on the dollar.

Coping with these threats will require more than crisis management. Now Rubin must take a far more assertive role as the Administration's chief economic strategist. At Halifax, he'll unveil his plan for repairing the global financial system, with the U.S. taking the lead. As the world's largest economy, "the U.S. remains the only country in a position to provide real leadership," Rubin told BUSINESS WEEK. "We have to help Americans understand that their economic well-being is directly related to this country's engagement with the global economy."

RUBIN'S AGENDA Treasury-watchers will see whether he can pull it off

Reform the International Monetary Fund by expanding a special short-term fund–the General Agreement to Borrow–to deal with financial crises

Head Off new financial crises by bolstering the IMF's power to monitor borrowing countries' economies and disclose information to private investors

Avoid intervention to support the dollar, except in extreme circumstances

Cut the $200 billion U.S. budget deficit gradually

Win congressional support for funding the World Bank's low-cost loans for fighting poverty in the least developed nations

Force Japan to open its auto and auto-parts market

DATA: BUSINESS WEEK

It's a tough task for the 56-year-old
Wall Streeter, who is more comfo
doing backroom deals than playin
itics in the limelight. Around the
Rubin's counterparts wonder wh
his vision—and leadership skills
up to the task. Rubin's agenda inc
proposals for restructuring the
national Monetary Fund (IMF) and
ing intervention in the markets (t
But his critics worry about wh
he'll take the lead if the global eco
slows down and wonder if he has t
novative ideas needed to resolve
putes among the U.S., Japan, and
rope. "Being at the top of Trea
requires a certain kind of public le
ship," says a French official, who n
the higher-profile image of Rubin's
decessor, Lloyd Bentsen.

Also, Rubin is blamed for faili
lead the way on what many see
largest U.S. threat to global stabi
cutting its $200 billion budget d
"The Administration isn't showin
prospect for long-term control of
deficits," says a German official.

HOT MONEY. Up to now, Rubin h
his efforts into finding ways to dea
financial crises. He strictly op
interventionist measures to stop
money"—cross-border investmen
institutions and individuals who f
the first whiff of trouble. "You ca
ways distinguish which flows ar
and which aren't," says the former
er. "But even if you could paint a
money red, restricting it is a du
proposition."

Rubin hopes to persuade the H
summiteers to order the IMF to
closer tabs on financial conditio
emerging countries and share th
formation with the markets. That
lead to the creation of a rating
tem on the health of different e
mies. And he wants the IMF to
ways to promote "transparency"
and honest disclosure by govern
to their creditors. With the IMF m
toward a new role as a global S
ities & Exchange Commission,
markets would have better info

CHRIS USHER

tion to anticipate problems, he argues.

If crises occur, Rubin wants to tap a special fund to bail out countries rather than patching together an aid package, as he did with Mexico. So he is asking the G-7 to expand the General Agreement to Borrow, a mutual-aid society of 12 rich nations. More countries—especially the newly prosperous Asian economies—will be urged to ante up.

HAWKEYED? At the summit, the G-7 leaders will likely back Rubin's proposals on crisis machinery. But on the larger question of how well the global economy is running, Rubin may find himself out of step. Compared with his European and Japanese partners, who worry about a faltering recovery, Rubin is sanguine about world economic prospects. The Treasury chief believes that "the most likely scenario is continuation of solid growth and low inflation" in the U.S. He's pleased with the progress Mexico has made. And he says the global economy can weather Europe's slowdown.

Critics say Rubin has failed to focus on the U.S. budget deficit—seen as the biggest threat to global economic stability

Indeed, the only area of the world that seriously worries the Treasury chief is Japan. Rubin has long been a hawk on Tokyo, arguing that Japan's closed markets are responsible for its economic slump. Rubin believes the U.S. can best help Japan by pushing it hard to open up. So it was no surprise that Rubin overruled Treasury's traditional arguments against trade conflicts to champion Administration sanctions against Japanese luxury cars.

A major challenge to Rubin's leadership, however, may come at home. By September, the Administration will enter serious budget negotiations with Congress. If Rubin can't deliver significant budget cuts, while protecting social programs expanded by Clinton, he'll have a hard time making a case for his global leadership. In coming months, Treasury-watchers will have a chance to decide whether Rubin has what it takes to play on the world stage.

By Mike McNamee and Dean Foust in Washington, with Bill Javetski in Paris

FACE-LIFT: *Eastern cities are star to resemble modern metropolises*

GERMANY

THE WORST IS FINALLY OVER IN EASTERN GERMANY

After five years of trauma, the region's economy is gaining

Every day, grocery shops throughout eastern Germany get fresh salads shipped to them from Dresden food processor Feinkostfabrik Dr Doerr. The 62-year-old company had moldered under communist ownership until Udo Doerr, son of the founders, bought back the name in 1990, borrowed to build a new factory, and pushed sales ninefold, to $12.9 million, this year.

The Doerr family's comeback is one sign among many that in eastern Germany, the worst is finally over. After a five-year crash course in capitalism, complete with traumatizing layoffs and factory closings, the region's economy is blooming at a 9% growth rate. Exports have started rising after a steady slump, and nearly 500,000 new entrepreneurs are beginning to lay the foundation for a new *Mittelstand* to add to Germany's small-business sector.

STOPGAP TAX. That's not to say the conversion is complete. The official unemployment rate, at 14.2%, is still frighteningly high. Transfer payments from western Germany will top $100 billion in 1995. To keep a cap on the $36 billion deficit, the government is even imposing an unpopular income tax surcharge until payments to the east dwindle.

But joblessness has also stopped its rapid climb. And net subsidies from the west, huge as they are, will decline 16% this year from their peak in 1994. "The transformation phase is over," says Karl Brenke, economist with the German Institute for Economic Development. "Now we need a healthy buildup."

Although that buildup could take another 10 years, the needed infrastructure is falling into place. Highways are being rebuilt and extended. Leipzig and Dresden are beginning to resemble the metropolises of Frankfurt and Munich. Services such as banking and auto leasing are growing rapidly, from 7% of gross domestic product five years a 25% now. Household income is three-quarters that of the west. self-confidence is growing," says Wiltsch, president of his own consu company in Potsdam.

Private investment is also sho signs of life. Siemens is spendin most $2 billion on a center for micr tronics research and production Dresden. Siemens expects its ultra ern chip factory to employ up to people directly and create another local jobs for suppliers and service a smaller scale, Wolfgang Gries, a icist from West Berlin, founded maker LAS in 1992 near Potsdam close to his eastern suppliers. "The real pioneering spirit here to tap he says. Today, 60% of his comp $2.64 million in sales comes from ports, mostly to the U.S. and Ja and he opened a sales unit in S Clara, Calif., this spring.

There remain plenty of problen tackle. Many east Germans just ca get off the dole or move up from o the thousands of make-work jobs cocted by bureaucrats. Robust gr rates also paper over weaknesses. struction is 18% of gross domestic uct, compared with 5.5% in the Tax breaks that encourage wester vestment in real estate are creati glut of office space in the major c And manufacturing makes up only of the eastern economy, versus 28 the west. "They can't just cut hai deliver pizzas," frets Bernard Vel head of a development team in the nomics Ministry in Bonn.

RISING FAST. The key is to develop bally competitive manufacturing. thanks to a politically expedient a ment to bring industry wages sw up to western levels, unit costs are 35% higher than in the west. Produ ity is rising fast, but it remains that of the west, and manufactu cannot pay low wages to compen The Economics Ministry now wan help funnel capital to manufactu One idea: to set up a fund that will investors a nice interest income a tax break, then put the assets to making long-term, low-interest loan eastern companies.

It's easy for Germans to forget eastern Germany is no longer the r was. But six years after the fall o Berlin wall, something remarkab happening.

By Karen Lowry Miller in Dre

A SURPRISING GROWTH SPURT

	EASTERN GERMANY	WESTERN GERMANY
GDP GROWTH*	9.0%	2.3%
EXPORT GROWTH*	25.0	6.8
INVESTMENT GROWTH*	13.7	3.9
UNEMPLOYMENT RATE	13.1	8.0

*Estimated annual change from 1994 DATA: DEUTSCHE BANK

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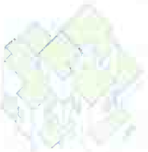

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BELGIUM

A BELGIAN BREWER'S PLANS COME TO A HEAD

Interbrew's $2 billion Labatt deal is a springboard for growth

Until recently, Belgium's Interbrew epitomized many of the beer industry's most venerable traditions. Interbrew boasts roots dating from 1366 and certain recipes concocted by local abbeys. Beer connoisseurs cherish Interbrew's more than 40 brands, including the lager Stella Artois, the cloudy white Hoegaarden, and an unusual raspberry-flavored malt.

Suddenly, this bastion of tradition is emerging as one of the industry's most aggressive global players. On June 6, Interbrew offered to pay almost $2 billion for Canadian brewing giant John Labatt Ltd. This deal comes on the heels of Interbrew's forays into China, Hungary, and Romania. If it is approved by Labatt shareholders, it will turn Interbrew into the world's fourth-largest brewer, up from just 16th last year, when it earned $100 million on sales of $1.7 billion. What's more, Interbrew will be "far more international" than U.S. giants Anheuser-Busch Inc. and Miller Brewing Co., says Steven Dixon, an analyst at Arnhold & S. Bleichroeder Inc.

MOGUL. Faced with mature domestic markets, leading brewers must go global. But Interbrew would need years of costly marketing to take its main beer, Stella Artois, worldwide. The only option is to buy growth. Labatt would give Interbrew a formidable springboard for further expansion. A North American presence is essential "if you want to be an international beer mogul," says Robert S. Weinberg, a St. Louis beer consultant whose clients include Miller and Anheuser. Labatt will give Interbrew 45% of the Canadian market, a rapidly growing U.S. specialty-beer business, and a 22% stake in Mexico's second-largest brewer, Femsa Cerveza.

These businesses have enormous growth potential. In the U.S., Labatt is already among the top three players in specialty beers, the most promising market segment. Since 1987, its U.S. sales have zoomed ahead at a 21% annual clip, while the market as a whole managed just 1%. Labatt figures it can boost its U.S. sales a further 85% by 2000. And that's not counting the addition of Stella Artois, which Interbrew chief Hans H. Meerloo now hopes to position as an upscale quaff in U.S. bars.

In Mexico, Femsa should enjoy strong growth, once the peso crisis subsides. And analysts are speculating that Interbrew may team up with Quilmes Industrial, Argentina's No. 1 brewer, to expand into the rapidly growing South American market. Quilmes was a major player in the May 18 hostile bid for Labatt led by Onex Corp. In Europe, Labatt owns Birra Moretti, which has an 11.6% stake in the Italian market. And Interbrew
would also get Labatt's 533 British
which would consolidate Stella A
position as Britain's top premium

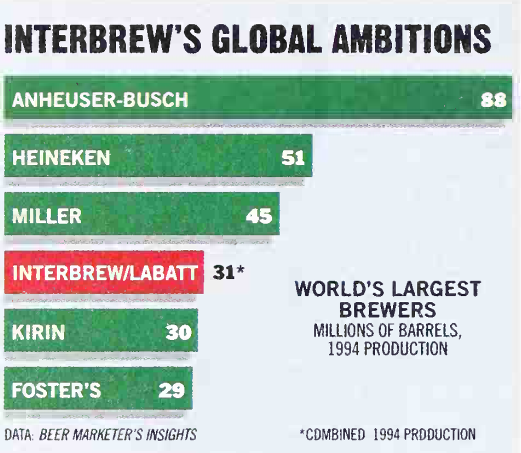
Interbrew's meteoric rise beg
1987 with a merger of Artois, o
by the Flemish De Spoelberch fa
and Piedboeuf, owned by the Wa
Van Damme family. Faced with a
rated local market and mediocre re
the families brought in Meerloo, a
mer ad man at J. Walter Thompso
and 20-year veteran of Philips Elec
ics. Interbrew proceeded to buy br
ies in Hungary, Croatia, Romania
Bulgaria and set up a joint venture
Zhujian Brewery of Canton, Ch
third-largest brewery. Profits have
than doubled in the past two year

CONCESSION. Interbrew had been
ing about a partnership with L
when Onex, Canada's largest bu
firm, launched its hostile $1.7 billio
for the brewer. Meerloo blew One
of the water with an offer priced
higher. In response, Onex CEO G
Schwartz conceded defeat, praisin
batt CEO George S. Taylor for doi
much to raise shareholder value.

That praise raises the questi
why Interbrew offered so much. Vi
ly all analysts believe Interbrew
have beaten Onex with a bid of
share, 10% less than the $20.80 i
fered. Even so, the deal should
Interbrew rich rewards. "They'll be
to repay over $750 million" by s
Labatt's broadcast and sports pr
ties, including
90% stake in th
ronto Blue Jays,
dicts analyst Mi
Palmer of E
Research Associ

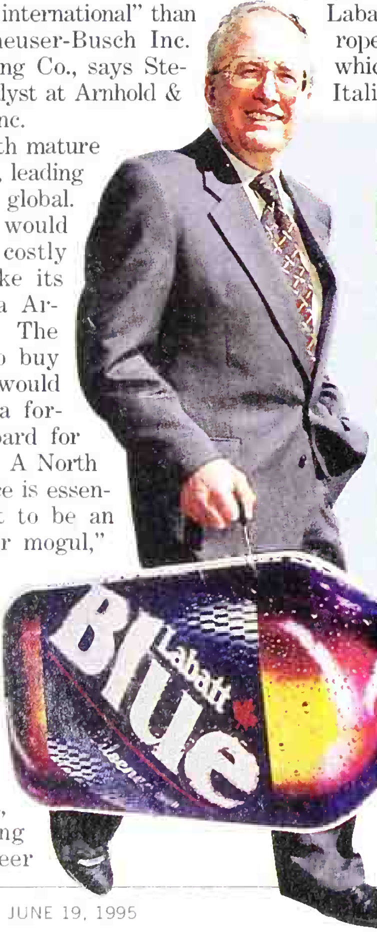
That will l
Interbrew with
batt's beer busi
es. Last year,
core Canadian b
ery had an oper
profit margin
22.8%, more
Heineken, Carls
or Anheuser. Pa
says Interbrew
boost margins
more, simply by
ting Labatt's ma
ing budget. It makes
wonder why other
giants hesitated in
ing a play for La
Look for more deal
they copy Interbrew's recipe.

By William C. Symonds in Tor
and Linda Bernier in Brussels,
bureau reports



DATA: *BEER MARKETER'S INSIGHTS*

*COMBINED 1994 PRODUCTION



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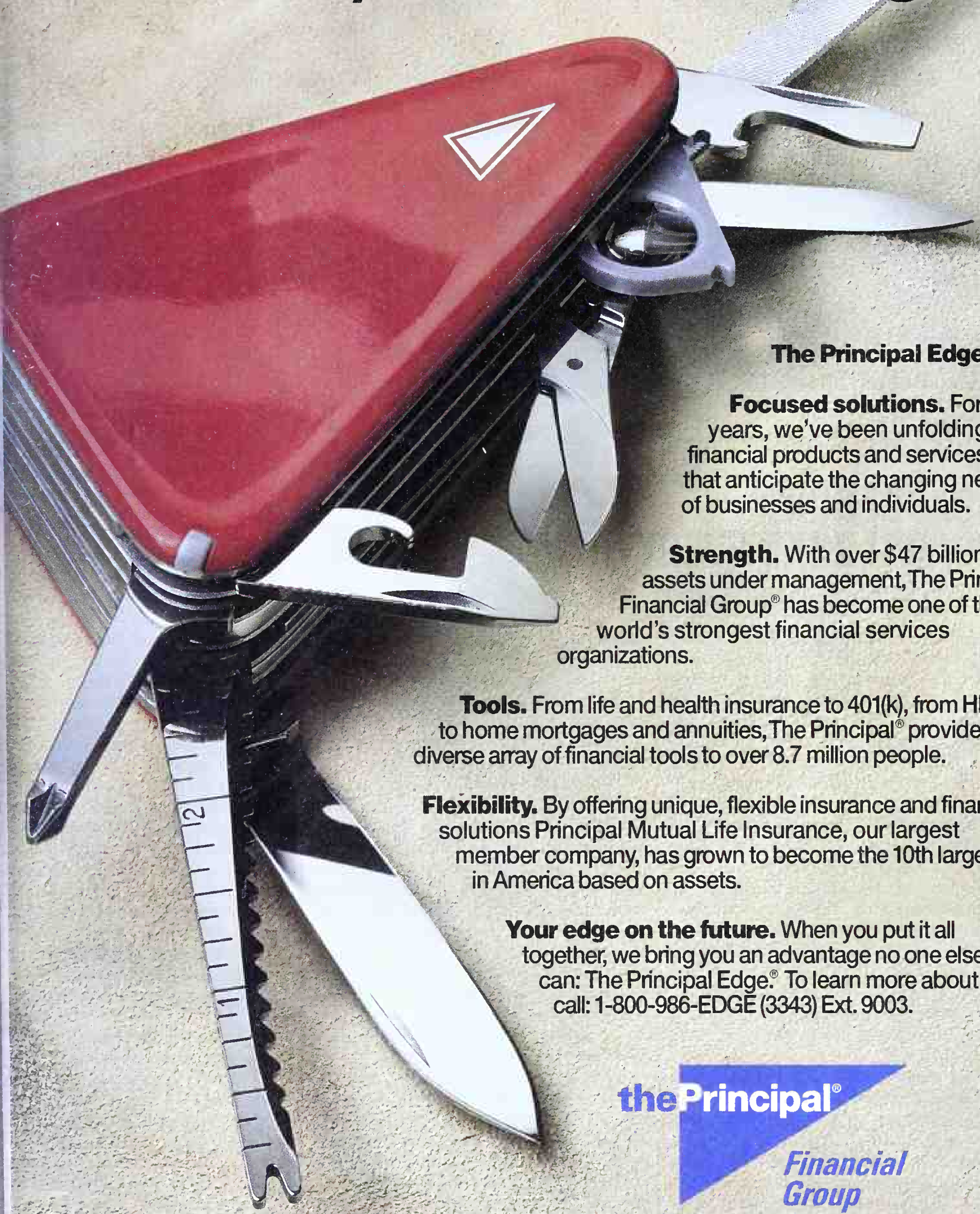

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MITSUHIRO WADA

MOTOH KATSUMATA'S BIG GAMBLE

AGE 51

BACKGROUND President of largest private-
held auto dealer in
Japan, selling 75,00(
Toyotas a year

STRATEGY Introduce
more Fords into his
Toyota showrooms,
expanding from curre
five showrooms to 20
within 10 years

GOAL Sell 1,200 For
a year by end of the
decade

JAPAN

ROADBLOCKS, ROADBLOCKS EVERYWHERE

Ford dealer Katsumata isn't moving many Mustangs–for now

Motoh Katsumata, 51, has waited nearly all his life to sell Fords. His grandfather started selling them in 1924. His father switched to Toyota in 1962 and built the largest privately held dealer network in Japan. But Motoh still dreamed of selling Fords. Last year, his dream came true. Now Mustangs gleam alongside Toyotas in his suburban Tokyo showrooms.

Unfortunately for Ford Motor Co., very few of its 126 dealers in Japan are as strong as Katsumata, president of Katusmata Group. With access to dealerships one of the main points of dispute in the current brawl between Washington and Tokyo, his efforts illustrate the huge obstacles Detroit faces in Japan. "The market's open tariff-wise," he says with a sigh, "but behind the tariffs, it's very difficult."

REPAIR RUNAROUND. Most dealers are under intense pressure from Japanese auto makers to keep American cars out. It took Katsumata two years of negotiations just to get Fords into the showroom. His clout helped him persuade Toyota Motor Corp. "Ford's lucky," says a Toyota spokesman. "He's a powerful businessman and that should give [Ford] every chance to succeed."

Once Katsumata started importing Fords, he had the daunting task of assembling a sales team from scratch, since Toyota wouldn't allow salespeople to hawk its cars and Fords at the same time. Moreover, government regulations make it hard for him to open a dealership with a repair shop, meaning that Katsumata's Ford customers often can't get the service support they need.

Still, having a high-profile dealer such as Katsumata is a coup for Ford. The most aggressive of the Big Three in Japan, Ford hopes that Katsumata's gamble will pave the way for others. "His involvement means a lot to the other dealers," says Konen Suzuki, president of Ford Motor Co. (Japan). "Everyone knows his business will set the pace."

But so far, that pace has been very slow. Of the 75,000 cars Katsumata sells a year, 360 are Fords. And he expects to be selling only 1,200 Fords a year by the end of the decade.

Then why bother? There's more to Katsumata's strategy than simple nostalgia. If he can get the reputation for selling foreign cars, Katsumata argues, he'll be well-positioned when they become more popular. That's starting to happen, he says. The market for Fords, while a niche, is growing as the company lowers prices. The base Mustang coupe runs about $27,000 these days, compared with $49,000 10 years ago. "A lot of guys in their 50s longed for a Mustang when they were young but couldn't afford one," says Yasuo S
one of Katsumata's dealers.

Despite talk of U.S. cars not ap
ing to the Japanese, Katsumata's de
say that customers are impresse
the safety features and low cost of
cars. Toyota's Caldina wagon, startir
$22,400, is less than a similar Ford
deo at $23,800. But the dual air
and antilock brakes, standard on
Ford, will tack $1,550 on the Caldi

TRUE BLUE. To get the message ac
Katsumata has started adverti
spending about $50,000 on direct
as well as newspaper and radio
Ford is spending millions more.
takes a while to sink into custon
minds," says Sudo, who spreads
word by driving a Taurus.

Katsumata, a former salesman
Toyota, has little patience for som
Ford's marketing strategies. The co
ny, he says, doesn't offer enough ri
hand-drive models. Moreover, it m
what he regards as petty demands:
showrooms, for instance, must be a
form Ford blue to promote corpo
identity. "It's meaningless," Katsu
gripes. "Toyota wants just one thi
sign." Worse, Ford doesn't take rep
ment orders often enough. "A on
year order system is nonsense," he s

Similarly, Katsumata finds fault
both sides in the trade fight. To
won't deregulate the inspection an
pair-shop rules that favor domestic
ducers. And Americans, he says, ar
bluster. "U.S. carmakers don't rese
anything. Nobody comes to our of
to see what we do," he says. But Ka
mata shouldn't feel ignored. As his
forts to sell Fords continue, indu
officials from both sides of the Pa
will have their eyes on his dealers.

By Edith Updike in To

The new Phaser printer is to color what a laser is to black & white.

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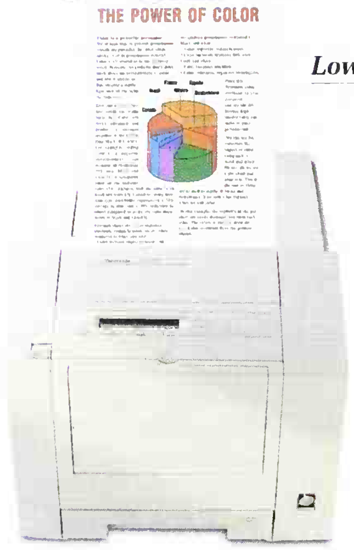
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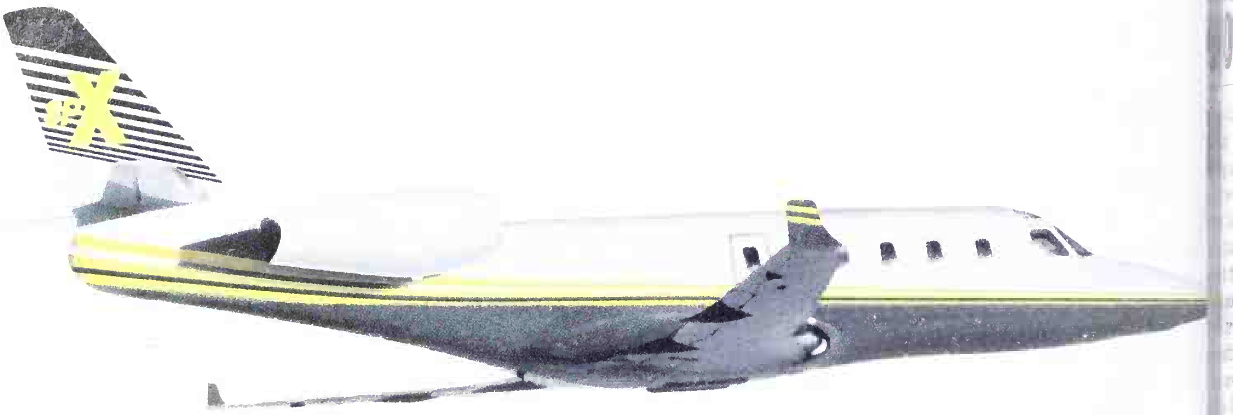

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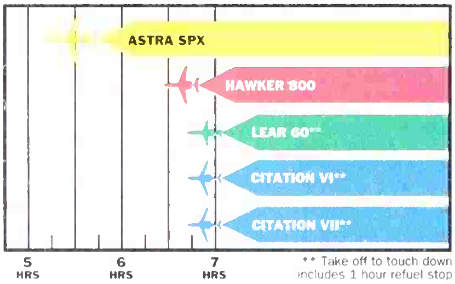

** Take off to touch down includes 1 hour refuel stop

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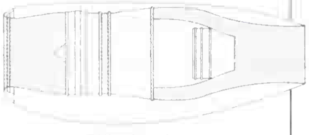

TFE 731-40

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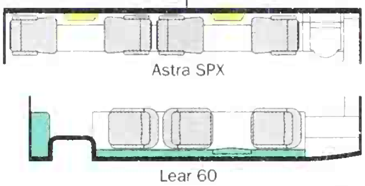

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HY A WIDER WAR IN BOSNIA OULD REAP THE WHIRLWIND

ı June 3, defense ministers from the European Union ınd NATO gathered in Paris to announce plans for sendng a rapid-reaction force to Bosnia. They talked tough, t seemed that at last the pictures of hundreds of U. N. ıs held hostage by Bosnian Serb fighters just might spurred a Western consensus on how to deal with the in the former Yugoslavia.

t committing up to 10,000 fresh British, French, and h troops to Bosnia is unlikely to bring onflict to a conclusion—even though the ; are releasing their U. N. hostages. In :he buildup probably increases the risks of er conflict, with more Western casualties. in turn might well produce a U. N. withal that could rattle the already shaky ern alliance.

e hope in some circles is that the Bosnian ; will now be intimidated into negotiating lomatic division of Bosnia. But the Serbs seen so much Western ambivalence in ast three years that they are unlikely to ıt to the bargaining table unless they are ard. "If the U. N. forces would like the ; to be cooperative, then they need to l to the Serbs they have the will and the ility to take them on," says Zalmay M. lzad, a former Pentagon official now at Corp. But the West probably won't be o put together a strong enough force to score a decisive y over the seasoned Serb fighters.

LY HUMANITARIAN? Still, for their own domestic rea- the Europeans, who are already the main contributors 22,500 strong U. N. force in Bosnia, are going to be in- ngly tempted to battle the Serbs. British Prime Minis- ohn Major, whose grip on power is ever so tenuous, ifted to tough talk on Bosnia—perhaps to offset his rep- ın for indecisiveness. At the same time, the Bosnian debacle presents France's new President, Jacques Chirac, with an opportunity to reassert France's flagging leadership in Europe. A European-led resolution of the Bosnian debacle would also keep alive the French-backed idea of a European security force independent of the U. S.

Of course, the Europeans insist that their mission in Bosnia remains humanitarian; but even using the reinforcements to perform humanitarian tasks will likely lead to clashes. For instance, efforts to fulfill the terms of the U. N. mandate by removing weapons from Sarajevo's demilitarized zone are certain to spark warfare with the Serbs. So would a scheme, pushed by the French, to force open a land corridor for humanitarian shipments from the Dalmatian coast of Croatia to Sarajevo.

If such a confrontation occurs and Western casualties rise, the current consensus would quickly evaporate. In fact, the divisions in the Western alliance that have made resolving the Bosnian crisis so difficult would widen. After all, the U. S. thinks it has much less at stake than do the Europeans. Clinton is assigning helicopter gunships and other support to the new force in hopes of preserving the status quo, in which the Europeans provide the ground troops while the U. S. largely critiques Bosnia policy from the sidelines.

The idea that the only way to handle Bosnia is to withdraw the U. N. peacekeepers and let the war burn itself out is gathering momentum in Washington. Heightened conflict would raise pullout calls to a fever pitch. That and combat losses could undermine the Europeans' newfound resolve to stare down the Bosnian Serbs. Then, the next crisis would be getting the beleaguered peacekeepers out safely and handling the nasty recriminations over a widening war inside Europe.

By Bill Javetski in Paris, with Stan Crock in Washington

FREED: *A wounded U.N. peacekeeper in Zagreb*

NIKOLA SOLIC/REUTERS

GLOBAL WRAPUP

OSSIBLE AUTUMN CHILL

ıe strained U. S.-Russian relation- may be headed for more turbu- e. Unless Russia changes its ıce by the fall, the Clinton Admin- ıation will find Moscow in violation 1990 treaty limiting conventional s in Europe—a step that could npt Republicans in Congress to to cut off Russian aid. Moscow's sgressions mostly involve forces hechnya and other tense areas. Administration is likely to move e Chechnya war continues.

NEW LIFE IN THE DEAD SEA

► The Middle East peace process combined with the world auto industry's rapidly growing demand for magnesium has brought Germany's Volkswagen to Israel. On June 6, the giant German auto maker announced that it was taking a 35% stake in a $600 million joint venture with Israel's Dead Sea Works Ltd. to extract magnesium from the Dead Sea. The salt lake holds the world's largest untapped reserves of the metal, which is used in lightweight materials for cars.

TROUBLE FOR SADDAM

► According to reports reaching Jordan, serious violence broke out last month in the Iraqi city of Ar Ramadi, formerly a stronghold of Saddam Hussein. The trouble was touched off by the execution of an air force officer who was accused of participating in a coup plot. When his body arrived back home bearing marks that indicated he had undergone brutal torture, enraged townspeople rioted, burning government offices and a glass works.

STRATEGIES

CAN HALLMARK GET WELL SOON?

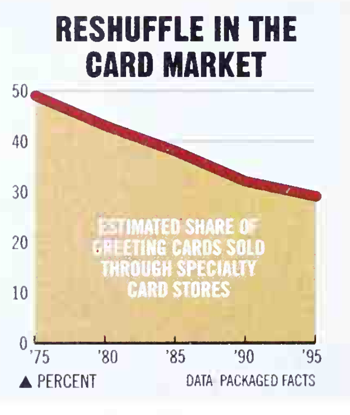
Bogged down by its specialty shops, the card giant is sagging

'Please remember that winter's darkness emerges into spring," penned Hallmark Cards Chairman Irvine O. Hockaday Jr. during a management retreat a few years ago, when asked to write a hypothetical sympathy card for Laplanders. Given Hallmark's recent problems, it's just the kind of consoling message he might want to send employees and Hallmark store owners.

The privately held greeting-card giant, based in Kansas City, Mo., has seen its market share slip from an estimated 50% to 45% over the past five years. Revenue steadily increased, reaching $3.8 billion in 1994, up 40% since 1990. But return on equity sagged, falling to an estimated 8% last year—far below its historical 15% to 20% ROE, as Hockaday concedes.

Part of the problem: Hallmark's cards and merchandise look dated next to hipper upstarts, such as Chicago's Recycled Paper Greetings. Meanwhile, risky new investments in media could divert attention from the core business. But Hallmark's biggest challenge is a changing marketplace that now favors mass retailers over the 9,000 independent specialty shops Hallmark relies on to sell its flagship cards.

Hockaday makes no bones about the fact that the company has made mistakes during his nine-year tenure—in particular, unsuccessful attempts to diversify and failed restructurings. The 58-year-old is only the third chairman in Hallmark's 100- history and the first who isn't a r ber of the founding Hall family, w holds two-thirds of Hallmark's sto



RESHUFFLE IN THE CARD MARKET

DATA: PACKAGED FACTS

NEW COLOR: *Hockaday is diversif into TV and jazzing up card lines*

Just how bad things are is har say. Hallmark's profits are a jeal guarded secret—even from the 2 employees, who own a third of the pany through a profit-sharing plan. they know the news can't be goo 1990, Hallmark's profit-sharing co bution began a slide, from 10% of ries to 6.5% last year.

Hallmark's response? In January company announced yet another rou cost-cutting, this time a merging o administrative, marketing, and proc development functions of the var Hallmark card brands. But that do mean there will be layoffs: "Hallmar have typically held their jobs for lif

Besides trimming overhead, Hock is trying to diversify from the ma greeting-card business. The comp plunged into TV production last year a $365 million purchase of RHI E tainment, best known for Hallmark's *of Fame* productions. Next came an million investment in Flextech, a Eu an satellite-TV company, this sp Where's the synergy with greeting ca Both cards and programming dish emotional content, Hockaday says.

SYNERGY SKEPTICS. Such claims of chic synergy meet with plenty of sk cism. "That's a hell of a stretch. not carry it through to warm and f food?" scoffs one analyst who follows industry. Hallmark's previous flings the media business have ended badl lost $10 million on a five-year inv ment in Spanish-language television cost banks and bondholders $104 mi by the time it was dumped in 1992. it barely escaped another loss last when it unloaded a $1 billion invest in the cable business that was pumm when Congress lim the fees cable op tors could charge.

Nor can Hocka afford to ignore core business. Gr ing cards and rel items still account more than half Hallmark's sales. hopes to jazz up card lines by gi more creative cor to the artists who duce 21,000 Halln card designs in 20

PHOTOGRAPH BY [illegible] CHART BY ALBERTO MENA/BW

ȝes each year. Instead of executing ting-card assignments dreamed up ›roduct managers, they will be engaged to pursue their own ideas. "We ›ur products get a little aged, relato the velocity of the marketplace," ‹aday says.

ockaday dances around his toughest —what to do with the thousands of pendently owned Hallmark card s now that discounters, supermar- and drugstores dominate the card ‹et. Specialty card shops, which accounted for 65% of the business, constitute less than a third of it. nark makes Ambassador cards spe- for discounters, but three-quarof the flagship line is sold through specialty shops. The shops agree ırry mostly Hallmark goods in exge for merchandising support, use ıe Hallmark name, and being by tion the primary Hallmark outlet.

LS OF PROTEST. Publicly, Hockaday s support for the shops, saying that protect the brand's premium image. the relationship seems sure to go way of the handmade Valentine. ›etitors and analysts say they expect aday to strike a deal any day with a ınter such as Target Stores to carry Iallmark line. Already the company uch agreements with six drugstore s, including fast-growing Walgreen nd CVS Consumer Value Stores. "I ve the decision has already been ," says E. Gray Glass III of Wheat, Securities Inc. "It's just a question ıing." There's nothing in the contract ıark signs with its store owners prevents it from selling its cards here it wants. But doing so would howls of protest from outraged shop rs and go against decades of Hall- culture.

ːanwhile, the stores have already hurt by the discounters and many ›e out of business in five years if don't diversify beyond Hallmark ıcts, predicts Glass. Some shop rs have already taken on competrands. "They're doing what's best eir business. I'm doing what's best ıine," says Virginia Liu, whose ington (D. C.) Hallmark card shop ıted directly across the street from store.

ll, with almost half the greeting- market, Hallmark is fighting back a position of strength. And its name and reputation for integhould play well with today's famiːnted consumers. "We could start a y of mutual funds, and people buy it," Hockaday boasts. "That's ower of the brand." Still, it will more than sympathy and senti- to get Hallmark back on track.

Susan Chandler in Kansas City

THE NEW GROWTH AT WEYERHAEUSER

The company is drawing kudos from shareholders and greens

How do you please shareholders and environmentalists alike? For paper and forest-products companies, it's traditionally an either/or choice. Make shareholders happy, and chances are you'll send the green crowd up the wall. Please the environmentalists, and shareholders probably will soon be heading for the door.

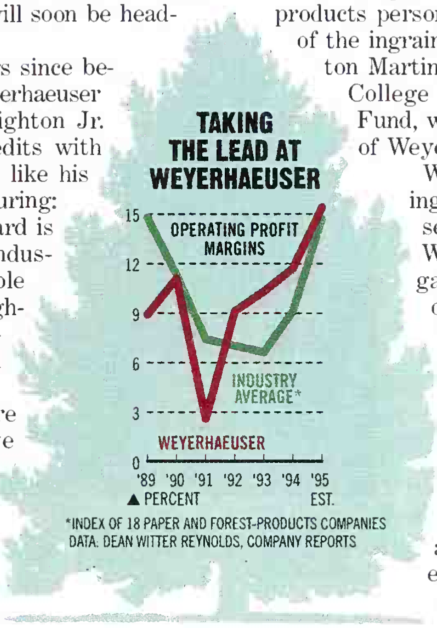
In the four years since becoming CEO of Weyerhaeuser Co., John W. Creighton Jr. has racked up credits with both. Shareholders like his extensive restructuring: The one-time laggard is now among the industry's most profitable players. And Creighton is making inroads with an even tougher crowd: Green activists are beginning to give Weyerhaeuser kudos for going beyond legal obligations to cut pollution and reduce damage to the lands it logs.

A BULLY? It's far from the company Creighton, 62, inherited in 1991, after three years as president under longtime CEO George H. Weyerhaeuser. Lackluster earnings at the Federal Way (Wash.) company had left it near the bottom of the industry. Investors scorned it as unwieldy and paternalistic. It was loaded down with outdated mills, and it also ran a slew of noncore subsidiaries making everything from milk cartons to disposable diapers. Meanwhile, environmentalists saw Weyerhaeuser as a chain-saw-wielding bully, recklessly denuding hills.

Creighton hardly seemed a reformer. A low-key man with a law degree and an MBA, he had been hand-picked by Weyerhaeuser to be the first CEO not related to one of the founders of the 95-year-old company. Creighton also came from the company's tiny real estate group, near-heresy in an industry where top jobs have always gone to paper and forestry execs. But being an outsider has advantages. "Not being a forest-products person, he didn't have a lot of the ingrained habits," says Carlton Martin, portfolio manager at College Retirement Equities Fund, which owns roughly 1% of Weyerhaeuser.

Within a year of becoming president, Creighton set about rejuvenating Weyerhaeuser. He began by dumping many of the noncore units. More important, he led managers through an 18-month reengineering in which each mill and tree farm had to redesign the way it worked. Creighton's goal: to add $700 million to operating earnings by 1995. To eliminate the impact of price fluctuations in the cyclical industry, the gains were measured in constant dollars, at 1989 price levels.

Few gave Creighton much chance of success. But he met his $700 million goal a year early. About $100 million has come out of corporate overhead. Most, however, came as Weyerhaeuser cut costs while boosting output at its aging plants. At a Washington mill, managers upped productivity by simplifying the flow of lumber, then installed computerized lasers that scan logs to determine the highest-value boards that can be cut from them. Now, output from each log is up 15%—and the mill produces 45% more lumber per hour than in 1990. And at a money-losing box plant in Tennessee, employees suggest-



TAKING THE LEAD AT WEYERHAEUSER

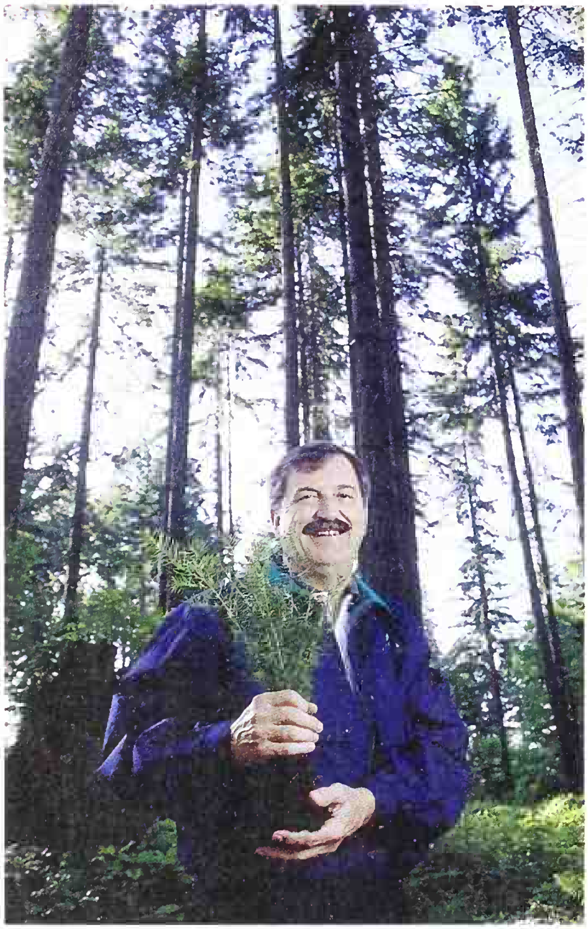
*INDEX OF 18 PAPER AND FOREST-PRODUCTS COMPANIES

DATA: DEAN WITTER REYNOLDS, COMPANY REPORTS

To boost the stock price, Weyerhaeuser raised its dividend by 33% in April and has announced plans to repurchase up to 10 million shares ed buying used machines to speed production. The equipment doubled productivity per worker in two years. "These improvements are going to stick because the [employees] have ownership," Creighton says.

At the same time, Creighton spent $1 billion modernizing three big paper plants. The investments slashed costs while boosting quality and output. At the Longview (Wash.) plant, new pulping equipment raised capacity by 40%, even as it consumes less energy, chemicals, and water.

The changes add up: In 1994, the company's operating income hit $1.2 billion, up 24%, on revenues of $10.4 billion, an 8.9% rise. This year, Prudential Securities analyst Mark Rogers expects operating profits will soar 72%, to $2.1 billion, on sales of $11.5 billion, thanks to both rising paper prices and Weyerhaeuser's improved cost structure.



ALEXANDER MARES-MANTON

Of course, rising paper prices are lifting profits industrywide. Yet Weyerhaeuser is moving to the head of the class. Its operating margin was just 8.9% in 1989—well under the industry's 14% average. By 1994, it hit 11.7%, nearly 30% better than rivals. And while Weyerhaeuser posted record earnings last year, others remain far below the peak profits attained in the late 1980s. Since 1989, net income has fallen 59% at International Paper Co. and 53% at Georgia-Pacific Corp. "[Weyerhaeuser is] one of only three companies out of 18 that exceeded 1989 earnings in 1994," says Evadna Lynn, paper and forest-products analyst with Dean Witter Reynolds Inc.

The stock is also much improved: From a low of 18 in 1990, it hit nearly 49 in early 1994. Fears that slowing construction will dent lumber sales have pushed it to around 43 today. To get it moving again, Creighton boosted the dividend 33% in April and announced plans to repurchase up to 10 million shares. He has also targeted another $600 million in incremental earnings by 1997—and he has pledged not to add capacity for at least two years. "Weyerhaeuser has gone from a build-or-perish mentality to one focused on financial returns," says Michael P. Stack, portfolio manager at Independence Investment Associates in Boston, which owns about 2% of Weyerhaeuser. "They're much more aware today that the shareholder is an important part of the equation."

> "Though we own huge amounts of timberland . . . we operate at the sufferance of the public"
>
> **WEYERHAEUSER CEO JOHN CREIGHTON**

Creighton is also making green concerns a bigger part of Weyerhaeuser's brief. While many in the industry fight regulation, Creighton argues that Weyerhaeuser's long-term interests—and its ability to plan for the future—are better served by a more cooperative stance. "Although we own huge amounts of [private] timberland, to some degree we operate at the sufferance of the public," he says. He has won applause from some greens. "They're never going to do everything environmentalists wish; if they did, they'd go broke," says Alan Copsey, chair of the Washington Environmental Council's forest resou
committee. "But they're one of the
at taking care of the land."

Take the recent modernization
paper mills, where Weyerhaeuse
cluded technology to eliminate
chlorines. It hasn't eliminated them
gether, as some greens demand, b
expects to meet proposed Environ
tal Protection Agency rules by 19
two years earlier than required—
as many rivals fight the new rules.

But it's in the forest that cha
are most dramatic. To head off criti
of clear-cutting—which Creighto
sists is necessary—the company is s
ing foresters to classes at Jone
Jones, a "green" Seattle firm of l
scape architects. They're learning t
following the contours of the land.
makes Weyerhaeuser the first m
forester to plan "designer clear-c
in which trees are left along moun
ridges and the edges of clear-cuts
"feathered" less abruptly.

The moves go beyond esthe
Working with environmentalists, na
tribes, and Seattle's water departm
Weyerhaeuser analyzed the impac
logging on 12 Northwest river ba
then came up with plans for harves
trees that lessen threats to salmon
The company is replacing culverts u
logging roads to allow fish passage,
it leaves trees near streams to sl
the fish. "They agree
fix all the problems,"
Kurt Beardslee, execu
director of Washing
Trout, a fish-conserva
group.

Still, Weyerhae
has a long way to g
quell public conce
Since last year, Creighton and Cha
W. Bingham, executive vice-presi
for timberlands, have been fielding q
tions at public "town hall meetin
The meetings have provided oppo
nity for dialogue—and for activist
blast Weyerhaeuser about toxic wa
conversion of forest land to housing
divisions, and continued clear-cutt
"They have taken tangible steps to
to demonstrate they're changing
way they do business," says Steve W
ney, Northwest regional director of
Wilderness Society. "But it's also
that there are vast acres under t
control where it's business as usu
No one ever said attaining leadershi
both earnings and environmental
would be easy. But Creighton isn't
ing away from either challenge.

By Dori Jones Y
in Federal Way, W

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††Source: Strategic Insight. Franklin Templeton was ranked #1 out of 50 U.S. fund managers for market share in the international equity fund category for the quarter ended 12/31/94.

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PUBLIC BROADCASTING

DEAD END FOR SESAME STREET?

Stations are hunting for new ventures to help survive a likely federal fund phaseout

Close your eyes in William J. McCarter's office on Chicago's Northwest side, and it would be easy to imagine a battle raging outside his window. McCarter is president of WTTW-Channel 11, Chicago's biggest public-television station. The clamor arises from construction of an upgraded production studio, his first line of defense in the war over the future of public broadcasting.

McCarter doesn't hold out much hope that federal funding for public TV and radio will survive. But he's fighting back with, among other things, the new studio, which he'll rent to commercial producers for a profit. "Handwringing about budget cuts is a waste of energy," he barks against the noise. "This is not a doomsday scenario."

Bill McCarter represents an aggressive breed of public broadcasting executive valiantly preparing for the day when GOP budget-cutters shut off the federal spigot for good. He is searching hard for new sources of revenue, cutting costs, and challenging many of public broadcasting's most cherished traditions—first among them the near-sacred rules about advertising.

DIFFERENT RULES. Most public broadcasting executives find it ludicrous that the U.S. can't afford less than $300 million annually to support commercial-free TV and radio. Many resent what they see as a thinly veiled political agenda behind the proposed cuts: the Republican conviction that public broadcasting is too "liberal." But as they gather in Washington on June 19 for their annual conferences, they also admit that inefficiencies abound within the system. "The ground rules are going to be different," McCarter says. "You're going to have to change your mind-set."

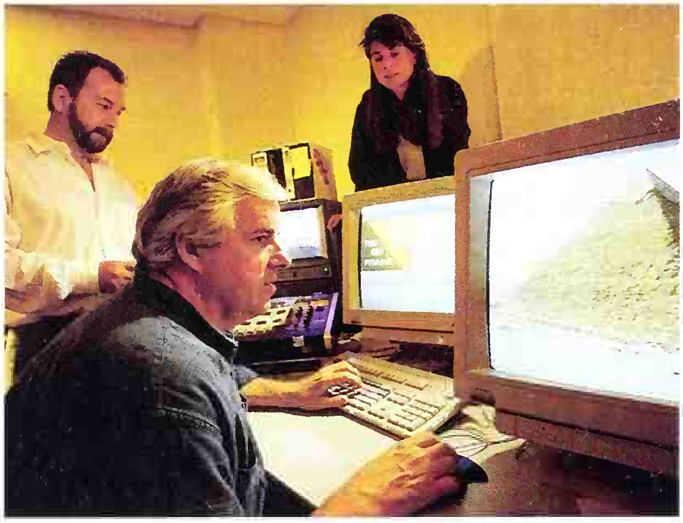
A close look at the business of public broadcasting, however, reveals that even if the system cleans up its act, it will have a hard time surviving as we know it today without federal support. Stations that aren't restricted by state or local charters would likely have to accept ads of some sort. Many small stations and some tough-to-finance programming would simply disappear. Lazard Frères & Co. Managing Director Steven T. Rattner, a media expert and board member of New York's WNET, says there's room for cost-cutting. But without federal funds, "there's no doubt that what the viewer sees would be very different," he says.

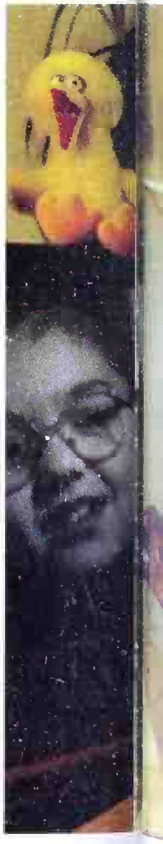
To realize how different, one has to understand the outsize impact federal funds have. This year, the Corporation for Public Broadcasting (CPB) will receive $285.6 million from Congress, or about 14% of public broadcasting's $1.8 billion in revenue from all sources. That's a relatively small slice, bu system's interrelated nature mag its importance in several ways.

First, for many small stations, fe money makes up a much higher per age of their budget. Second, those tions use the money to purchase gramming, such as *Sesame Street This Old House*, produced elsewhe the system. Finally, unlike corp grants targeted at specific programs eral funds are discretionary—station use them to fund projects that o wise would flounder. "If that mon lost and can't be replaced," says B Clark, CEO of Seattle's KCTS, "it will a downward spiral."

A recent Lehman Brothers Inc. s for CPB concludes that cost-cutting new revenue sources won't replace

WGBH'S *NOVA*: *Producing a second series on pyramids*





THE MONEY SQUEEZE WGBH in Boston and KCET in Los Angeles have launched chains of retail stores with partners that supplied the initial capital. But can they fill the funds gap?

funding (table). Even outright rtising, the report says, would a negative effect, since any ue generated would likely be by revenue lost when irritated ribers bolted. Representative Fields, Republican chairman of ouse telecommunications sub- nittee, charges that when it s to finding solutions, “some e have been ostriches and have their heads in the sand.” But if you distrust the Lehman t as captive of CPB, the evi- available supports most of its usions.

STANDARD. Take the issue of tising. For a while now, Mc- r's WTTW and several other sta- have been selling what they enhanced underwriting,” which s they run a limited number -second promotional spots for ors that look a lot like classy rate-image ads. The practice 't break Federal Communica- Commission rules, but it does foul of stricter standards set e Public Broadcasting Service. hough it has backed off for PBS earlier this year threatened e the stations for breaking its Meantime, national programmers as Boston's WGBH and New York's have complained that national ors for their shows have been ing openly that “advertising” in one of the more accommodating local markets would be a better deal. “We need a consistent standard that everybody sticks to,” says WGBH chief Henry Becton, producer of *Masterpiece Theater* and *Nova*. McCarter's response: PBS should change, not the local stations.

The Dilemma

A recent Lehman Brothers study done for the Corporation for Public Broadcasting concludes that, even using optimistic forecasts, no mix of cost reduction and revenue enhancement could replace lost federal funding.

		MILLIONS OF DOLLARS
1995 FEDERAL FUNDING		$285.6
POTENTIAL COST REDUCTIONS*		
• Station mergers	$34.6	
• Automation of station operations	60.9	
NEW REVENUE SOURCES*		
• New underwriting revenue given relaxed standards for sponsorship plugs	64.7	
• Rental of extra satellite transponder space	6.8	
• Income from merchandise licensing	5.2	
TOTAL		$172.2
SHORTFALL		$113.4

*By year 2000

DATA: LEHMAN BROTHERS INC., CORPORATION FOR PUBLIC BROADCASTING

Given the budget pressures, McCarter will likely prevail. Corporations, besieged by nonprofits for support, are demanding more for their sponsorships and see the opportunity to press their case. Mobil Corp. recently dropped support of WGBH's *Mystery Theater* and told the station it wants to “enhance” its national sponsorship of *Masterpiece Theater*. Says Ameritech Corp. ad director Brian Fitzgerald: “We don't want to turn public broadcasting into normal TV. But we'd like more than seeing our name in fine print.”

Clearly, stations could squeeze more money out of sponsors if PBS eased its standards. But even if that didn't scare off subscribers, most agree the revenue impact for big stations would be in the thousands of dollars, not the millions. Small-market stations would see even less impact, and many outlets, owned by states, cities, and schools, by charter simply can't take advertising. “It's not a silver bullet,” says WNET President William F. Baker.

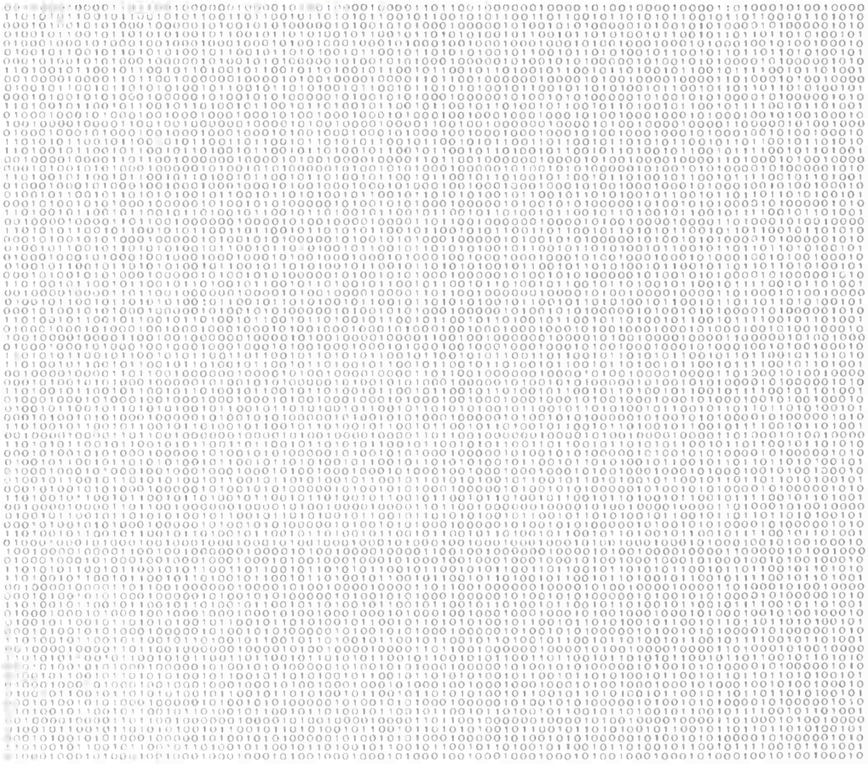
Silver bullets are hard to come by. That's why most smart station managers are trying to create as many new revenue streams as they can. McCarter, who already produces for MTV and Lifetime, lately signed a production contract for his upgraded studio with Walt Disney Co.'s Buena Vista television unit. Seattle's Clark has also pushed heavily into production of shows for others and scored big in 1993 by selling a syndicated program called *Bill Nye the Science Guy* to the Disney Channel.

THE SPINOFF: *Nova's pyramid puzzle kit*

WGBH in Boston and KCET in Los Angeles have both launched chains of retail stores with partners that supplied the initial capital. LearningSmith Inc. and Store of Knowledge Inc. sell educational products based on PBS shows, and both plan to expand by linking with local PBS affiliates. KCET, for instance, has teamed with WHYY in Philadelphia to open a WHYY Store of Knowledge. The Philly station gets a sliver of revenue and in turn promotes the store.

GETTING FLEECED. Other ideas range from creating CD-ROMs and other multimedia products to renting out satellite time on PBS transponders. But while some stations have gotten a solid boost from entrepreneurial endeavors, most of them have not. Finding the resources to start new ventures is out of reach for many stations. Even big ones such as New York's WNET have problems. Bill Baker, the station's president, would love to leverage WNET's rich library of series such as *Nature*. But, he says,

Your customer data has never really given you a clear picture of your customer.



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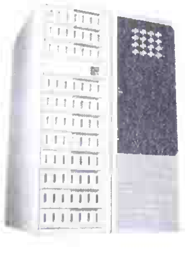

Unfortunately, there's been no practical technology to make large-scale decision support possible. Companies that have tried haven't offered much beyond some hardware and a handshake.

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"the rights to many of them were sold up front to fund production."

PBS has been accused of dropping the ball most egregiously when it comes to merchandising its kids properties. The case of *Barney* gives critics some ammunition. PBS is getting fleeced by the show's producer, Lyon's Group. It has gotten only $1.6 million from Barney home video and foreign rights since 1991. Worse, PBS gets no money from Barney toy sales. That makes the show a money-loser for the network since it paid $2.7 million during the same period to acquire the broadcast rights.

POLITICAL MIRACLES. A new contract will improve the take but not dramatically. The problem: PBS doesn't own or produce the character, so even under the best of circumstances, it can't expect a huge gain. The same holds true for *Sesame Street*. Moreover, most public broadcasting fare doesn't lend itself to merchandising. Says WGBH's Becton: "That's not what we're here to do."

The best hope for public broadcasting is twofold. First, it will have to reorganize by eliminating overlapping stations, cutting the system's administrative bureaucracy, and figuring out how small stations can share in the wealth of big ones. Second, it will have to tap the potential of digital technology.

"Are people really going [to cut us off] for the equivalent of $1 a year per citizen?"

Many markets have more than one public-TV station, and viewers in big cities such as Washington, D. C., and New York can see as many as six signals. The system can't afford all the duplication, but because many stations are owned by cities, universities, and other institutions, deciding which should go isn't easy. Even friendly mergers can be difficult. Connecticut Public Broadcasting Corp. actually asked to merge with larger WNET six months ago. So far, talks have gone nowhere. Mergers will happen, though. Most predict that as the pressure builds, CPB will force them to. Also likely to be debated: whether to merge National Public Radio and Public Radio International.

Most promising would be tapping into the digital future. Digital compres will soon allow any television or r station to beam six channels instea one. If regulators let public stations the extra spectrum to commercial grammers, they could pay for non mercial programming easily.

The trouble is, digitization is y away, and solutions currently on the t hold much less promise. They inclu $6 billion federal trust fund that w kick off enough interest income to k CPB going. Where would the money c from? A fee from commercial broad ers, which would require a political m cle, or a tax on TV sets, which w take divine intervention.

That's why many public broadcas executives are quietly hoping bud cutters will simply be kind. "Our fee is, some support will continue," s WGBH's Becton. "My question is, are ple really going [to cut us off] for equivalent of $1 a year per citiz That's not entirely clear. But the w of public broadcasting would do we prepare itself for the worst.

By Michael Oneal in New York Richard A. Melcher in Chicago, Mark Lewyn in Washington, Dori J Yang in Seattle, and bureau reports

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nd Rold Gold brand Pretzels

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ars, brought a renewed sense of ownership and empowerment to the
,000 Frito-Lay employees. As part of this ownership, Frito-Lay's
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rket-driven decision support system—the Zone Workbench System—
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It's an application built from the customer up, and the SAS® System software has been there every step of the way.

"The Zone Manager is the first line of communication with our Route Sales force," says Tom Nealon, Director of I/TS for Frito-Lay, whose department spearheaded development of the decision support system. "We knew from the start that the Zone Workbench had to provide information that was 'actionable'. It also had to be portable across client/server, workstation, or laptop environments. Equally important was the ability to integrate multiple data sources."

Delivering More than Software Alone

"Given the tight schedule, the software company we chose had to provide superior applications development tools—as well as comprehensive training, consulting services, and documentation," adds Nealon. "SAS Institute came through on every count, proving time and again the value of having a software vendor that's as interested as we are in completing projects on time and on target."

Nealon calls the Zone Workbench "a tremendously versatile business tool proving user-friendliness, power, and portability between platforms can all operate in one package. The old-style EIS systems are antiques. The game today is to provide information that can impact the marketplace each day, for each of our customers. For Frito-Lay, SAS Institute is making sure we have the tools to make an impact."

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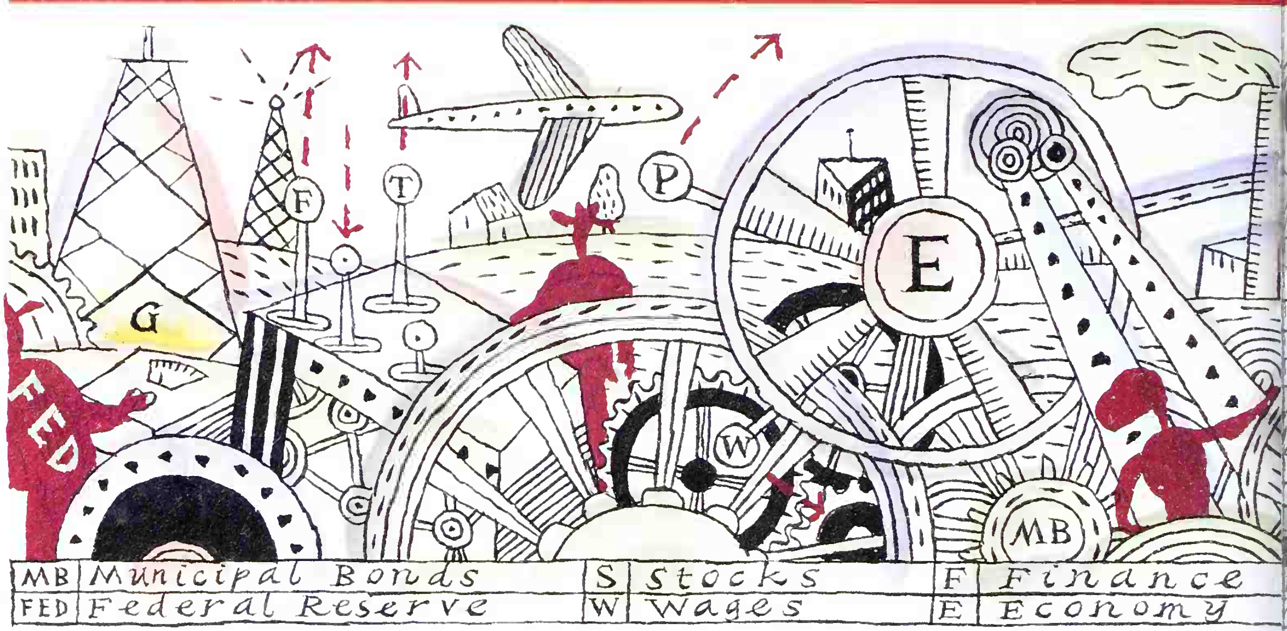


WHERE TO INVEST

Despite the current slowdown, there are plenty of enticing options

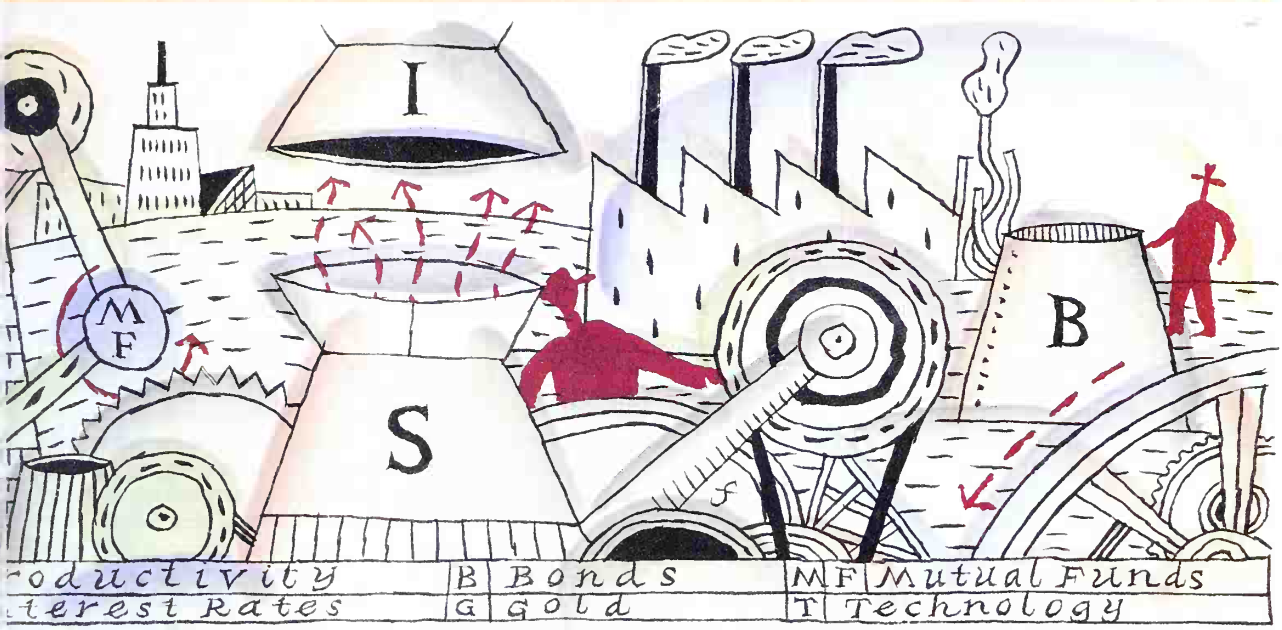
Only six months ago, the pros were lowballing their forecasts for 1995. After the shellacking they took last year, most would have been happy to score single-digit gains in stocks and bonds—and they planned their strategy accordingly. But markets have a way of turning pros into pikers. Indeed, perhaps because expectations were minimal, the markets raced ahead at maximum speed. "Was anybody forecasting 4500 on the Dow, 6.8% on the long bond, 80 yen to the dollar?" asked Nicholas Knight, chief strategist at Nomura Research Institute Ltd., during a speech given to a recent gathering of investment managers in Zurich. The response: a few embarrassed giggles.

There are probably a lot of individual investors who followed the pros, played their cards too cautiously, and missed a good chunk of the markets' progress. But don't despair. It's unrealistic to think the stock market will rack up a further 16.9% increase in the ond half or that long-term U.S. Treasuries will rally other 18%. Nonetheless, the gains are far from ov

BUSINESS WEEK's Midyear Investment Outlook f that the fundamentals for investing are still compel True, the U.S. economy is slowing—so much so that cession talk is rampant on Wall Street and Main Str Yet it's also true that inflation is low and interest r are down, even after the dollar took a severe drubb in the currency market. Our economists conclude the slowdown will be short-lived and that growth pick up again in the fourth quarter (page 76).

Another bullish factor, believe it or not, may Washington. The pols are taking investor-friendly st that could have far-reaching implications. Both house Congress have passed resolutions to balance the fe al budget over the next seven years. Of course, res tions are easy to make. Exactly how legislators

ILLUSTRATIONS BY JEFFREY FISHER



a balanced budget is not yet certain: The senators epresentatives have to iron out the differences be- ı their resolutions, a process that should be fin- by the end of the month.

that time, we'll also get a look at what the tax night look like. What emerges will be much less ·ous than the House's $350 billion bag of goodies. whatever comes up should be much to investors' . A reduction in capital-gains tax is considered a thing, and the restric- aws regulating individu- irement accounts (IRAS) be liberalized.

in all, the investment lrop is especially strong ocks (page 78). Reces- fears may precipitate a ction, but a pullback is what many investors been waiting for—an tunity to get in at lower s. Investors don't even to wait to buy small- any stocks (page 82). of the market's action ear has been in the big- issues, and many high- y smaller companies are g at attractive prices.

you're a do-it-yourself picker, be sure to check test hot-takeover bets side Wall Street (page If you're one of the mil- who prefer to leave that to a mutual fund, find out which funds have been doing the best stockpicking of late (page 106). Funds that went heavy on high tech did well, which is not surprising. Many of the best-performing stocks of the year are tech issues (page 114).

Bond investors have a lot to cheer about this year, and the chances are good for an even further drop in long-term rates (page 100). Those who buy municipal bonds have had a tougher time. Their gains from falling rates have been tempered by talk of tax reform that could wipe out munis' tax-favored status (page 105).

In scouting for investments, be sure to cast a wide net. Most foreign stock markets have lagged behind the U.S. this year, but they're now gaining strength that should carry through the second half of the year (page 94). Even the beaten-up Japanese stock market offers some interesting plays.

It may be hard for some investors to buy when prices seem high already. But prices for investments are relative, and looking at the remainder of the year, they're relatively attractive.

By Jeffrey M. Laderman in New York, with Howard Gleckman in Washington and Bill Javetski in Paris

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GOLD Precious little about this metal is glittering, with the price still stuck in neutral. *Page 112*

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INSIDE WALL STREET There's buyout bait aplenty—in PCs, banks, lodging, and more. *Page 116*

The Sharp Slowdown Should Stop Short of Recession

BUSINESS WEEK foresees growth of 2.5% in the next 12 months

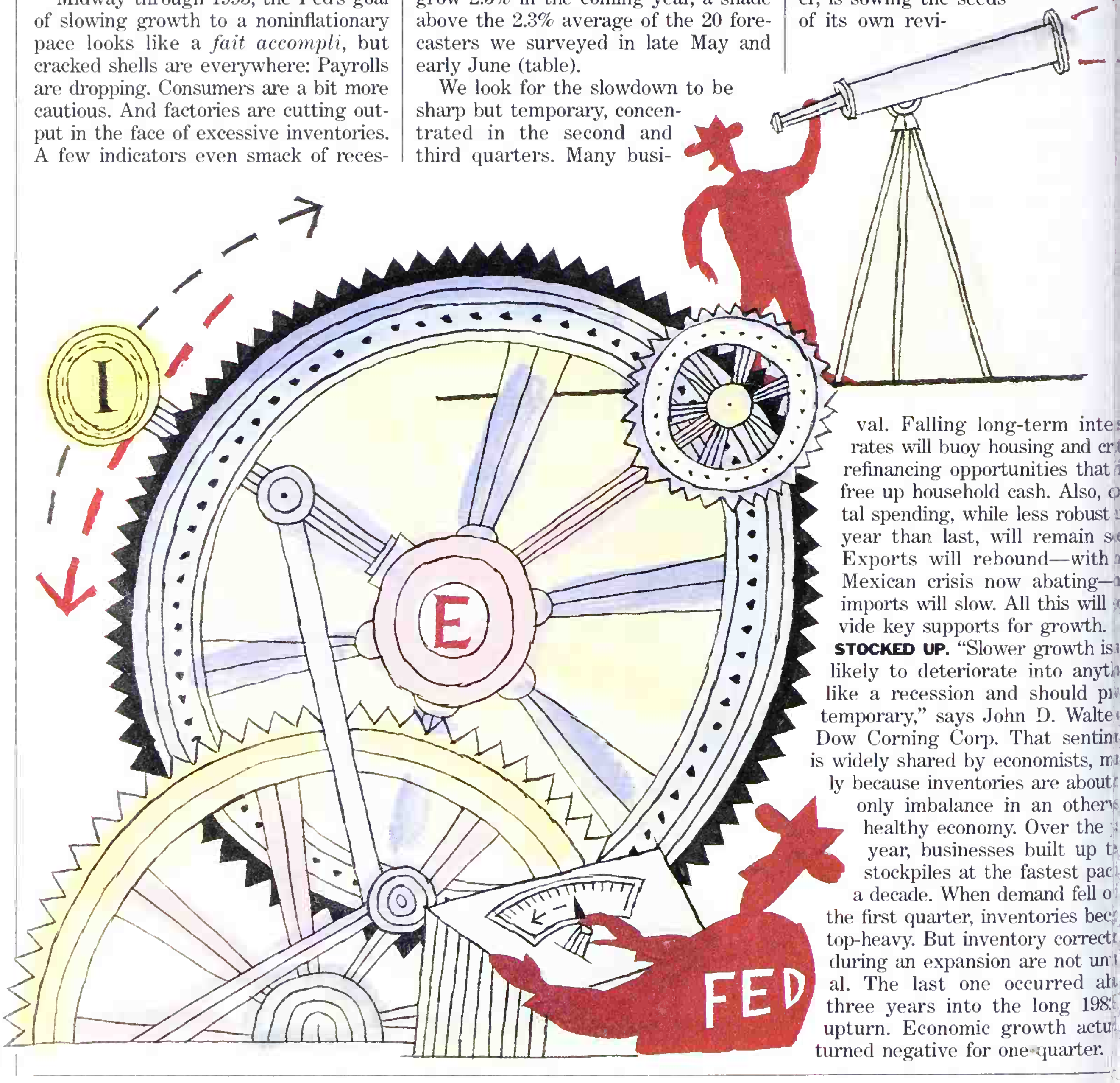
If you want to make an omelette, you have to break some eggs. The Federal Reserve appears to have taken that truism to heart as it attempts to engineer a soft landing for the U.S. economy.

Midway through 1995, the Fed's goal of slowing growth to a noninflationary pace looks like a *fait accompli*, but cracked shells are everywhere: Payrolls are dropping. Consumers are a bit more cautious. And factories are cutting output in the face of excessive inventories. A few indicators even smack of recession, raising a crucial question: Is the Fed serving up a delicacy for the markets or a dish that'll turn your stomach?

BUSINESS WEEK thinks the economic outlook will favor both stocks and bonds. On balance, we expect the economy to grow 2.5% in the coming year, a shade above the 2.3% average of the 20 forecasters we surveyed in late May and early June (table).

We look for the slowdown to be sharp but temporary, concentrated in the second and third quarters. Many businesses are holding excessive inve ries, as the impact of the Fed's rate hikes hits demand. Those e stockpiles must be worked down at expense of orders, output, and jobs

A slower economy, however, is sowing the seeds of its own revival. Falling long-term inte rates will buoy housing and cr refinancing opportunities that free up household cash. Also, c tal spending, while less robust year than last, will remain s Exports will rebound—with Mexican crisis now abating— imports will slow. All this will vide key supports for growth.



STOCKED UP. "Slower growth is likely to deteriorate into anyth like a recession and should pr temporary," says John D. Walte Dow Corning Corp. That sentin is widely shared by economists, m ly because inventories are about only imbalance in an other healthy economy. Over the year, businesses built up t stockpiles at the fastest pac a decade. When demand fell o the first quarter, inventories bec top-heavy. But inventory correct during an expansion are not un al. The last one occurred ab three years into the long 198 upturn. Economic growth actu turned negative for one quarter.

he 1995 inventory realignment
ıld not take long. New control sys-
; let businesses react faster to over-
king. Moreover, the imbalance be-
ɜn inventories and sales is heavily
entrated in the auto industry. De-
's already announced cutbacks
ld have that problem in check by
nd of summer. Also, a lot of the ex-
retail inventories are imports,
h will shift the blow of fewer retail
rs to foreign manufacturers.

what will the economy look like
inventories are in better shape?
best bet for the fourth quarter and
nd is a pickup in growth—not to
ed the "speed limit" of about 2.5%
al gross domestic product that the
believes will keep inflation reined
With current growth apparently
ping well below that pace, the
ces are rising that the Fed's next
will be to ease.

me mild acceleration in inflation,
ably to about 3.5% by the end of
up from 2.7% in 1994, seems like-
ut the Fed has suggested it will
ate a small pickup as long as the
my is slowing down. Moreover, ef-
on Capitol Hill to balance the bud-
ire likely to exert some drag on
conomy beginning as early as fiscal
1996, which begins in October.

ST EXPORTS. Keeping the economy
ging along will be capital spending
exports. Businesses will continue
vest in high-tech equipment in or-
o lift productivity—for reasons
from the ups and downs of the
ess cycle. Global competition is
g efficiency. "The recent pickup in
ctivity is permanent and not just a
ess-cycle phenomenon," says Mi-
Keran of Prudential Insurance Co.
d because of increased efficiency,
ially in manufacturing, American
anies are in a much better posi-
o weather a slowdown. To be sure,
s are set to slow in the coming
from their stellar performance in
ast year. But with unit labor costs
tionally low, profitability will suffer
han in past cycles.

is sharper competitive edge will
make the coming year another good
or exporters. The Mexican crisis
U.S. shipments a blow in the first
er, but export growth will rebound
second half of 1995. This depends
e expectation that continental Eu-
recovery will maintain its recent
of 2.5% to 3% and that East Asia
atin America will continue to grow
gly. One worry is a new round of
sion in Japan, which could temper
h along the Pacific Rim.

bigger boost to the U.S. economy,
h, will come from the sharp slow-
in imports, as domestic demand
wanes. In consequence, the trade deficit is set to improve—a plus for overall growth.

But even with these solid supports from Corporate America and the global economy, consumers will still play the crucial role in how the economy bears up. Fed tightening has already hit household spending hard. Over the past year, outlays for consumer durables and housing are up only 3.2%, down sharply from the 10.1% pace of a year earlier.

Even so, economists are cautiously upbeat. Despite recent weakness, "we still believe consumers will make one more run at the malls," says Maureen F. Allyn at Scudder, Stevens & Clark Inc. May's job drop was not the start of a recession-like wave of payroll cuts. The layoffs were linked to the inventory correction. Once that imbalance has passed, job and income growth will be sufficient to support a moderate pace of buying.

WHAT ECONOMISTS ARE FORECASTING

PERCENT CHANGE IN REAL GROSS DOMESTIC PRODUCT

	1995			1996		IIQ '95 IIQ '96
	II	III	IV	I	II	
MICHAEL KERAN Prudential Insurance	2.5	3.5	3.5	2.5	2.5	3.0
DANIEL E. LAUFENBERG American Express Fin.	2.2	2.7	3.4	2.8	2.2	2.8
MICHAEL R. ENGLUND MMS International	1.5	3.0	3.0	2.5	2.5	2.8
SAMUEL D. KAHAN Fuji Securities	2.0	2.5	3.0	2.0	2.8	2.6
JOHN R. WILLIAMS Bankers Trust	1.3	2.5	2.5	2.5	2.5	2.5
CAROL A. LEISENRING CoreStates Financial	1.6	2.2	3.1	2.8	2.2	2.5
JAMES C. COOPER & KATHLEEN MADIGAN BW	1.4	2.1	2.4	2.7	2.7	2.5
JAMES R. SOLLOWAY Argus Research	1.5	2.4	3.5	2.1	2.0	2.5
IRWIN L. KELLNER Chemical Bank	1.5	2.3	2.8	2.5	2.3	2.5
L. DOUGLAS LEE NatWest Washington Analysis	1.9	1.2	1.5	3.9	2.8	2.4
KURT KARL WEFA Group	2.1	2.4	2.0	2.2	2.5	2.3
LAURENCE H. MEYER Laurence H. Meyer & Assoc.	0.5	1.7	2.5	2.6	2.3	2.3
MICHELLE COLLEY LAUGHLIN Sanwa Securities	1.2	1.5	3.0	3.5	1.5	2.2
NICHOLAS S. PERNA Shawmut National	2.1	1.8	1.9	2.3	2.7	2.2
DAVID H. RESLER Nomura Securities Intl.	0.8	1.8	2.2	2.4	2.5	2.2
MAUREEN ALLYN Scudder, Stevens & Clark	2.0	2.6	2.3	2.6	1.2	2.2
LLOYD T. O'CARROLL Reynolds Metals	1.4	0.6	2.4	2.7	2.9	2.1
JOHN D. WALTER Dow Corning	1.4	2.1	1.5	1.8	2.5	2.0
ROGER BRINNER DRI/McGraw-Hill	1.1	0.9	1.7	2.5	2.8	2.0
C. HEATHER DILLENBECK U.S. Trust	1.0	1.5	2.5	2.0	1.0	1.8
AVERAGE	**1.6**	**1.9**	**2.4**	**2.5**	**2.2**	**2.3**

DATA: BUSINESS WEEK

A healthy consumer balance sheet is another force that should prevent recession. The residential real estate market across most of the country will stay solid, supporting house prices. And the rallies in both the stock and bond markets are boosting consumer wealth. The bond rally has also touched off a new burst of refi madness: Home-mortgage refinancings in late May were triple their early-March volume, putting extra cash into people's pockets.

FEELING SCRAMBLED. Consumers, however, will not spend with the same gusto as in 1994. Job jitters will cool the jets of some shoppers. And households took on a record $130 billion in new installment debt in the past year. Add in higher monthly payments on adjustable-rate mortgages caused by past rate hikes, and some households will feel mighty scrambled by 1996.

Of course, any time the economy slows markedly, it becomes vulnerable to shocks. This time is no different. Anything that knocks the pins out from under consumer confidence—from a sudden escalation in U.S. involvement in Bosnia to an additional plunge in the dollar—could be enough to turn the Fed's would-be omelette into dog food. That happened after the Iraqi invasion of Kuwait in 1990. But barring the unknowable, BUSINESS WEEK is betting that the Fed will prove to be a pretty good chef.

By James C. Cooper and Kathleen Madigan in New York

The Amazing Ride Isn't Over Yet

The stock market may take a breather, but the fundamentals are still strong

Dazzling the bulls and confounding the bears, the U. S. stock market has steadily climbed to heights that only six months ago seemed unreachable. The Dow Jones industrial average, at 4485, has zoomed nearly 17% so far this year, with the broader Standard & Poor's 500-stock index keeping pace. It's no mystery why: The Federal Reserve's yearlong campaign to slow economic growth without causing a recession—the "soft landing"—seemed to be falling into place. Long-term interest rates tumbled, while corporate profits continued to exceed expectations.

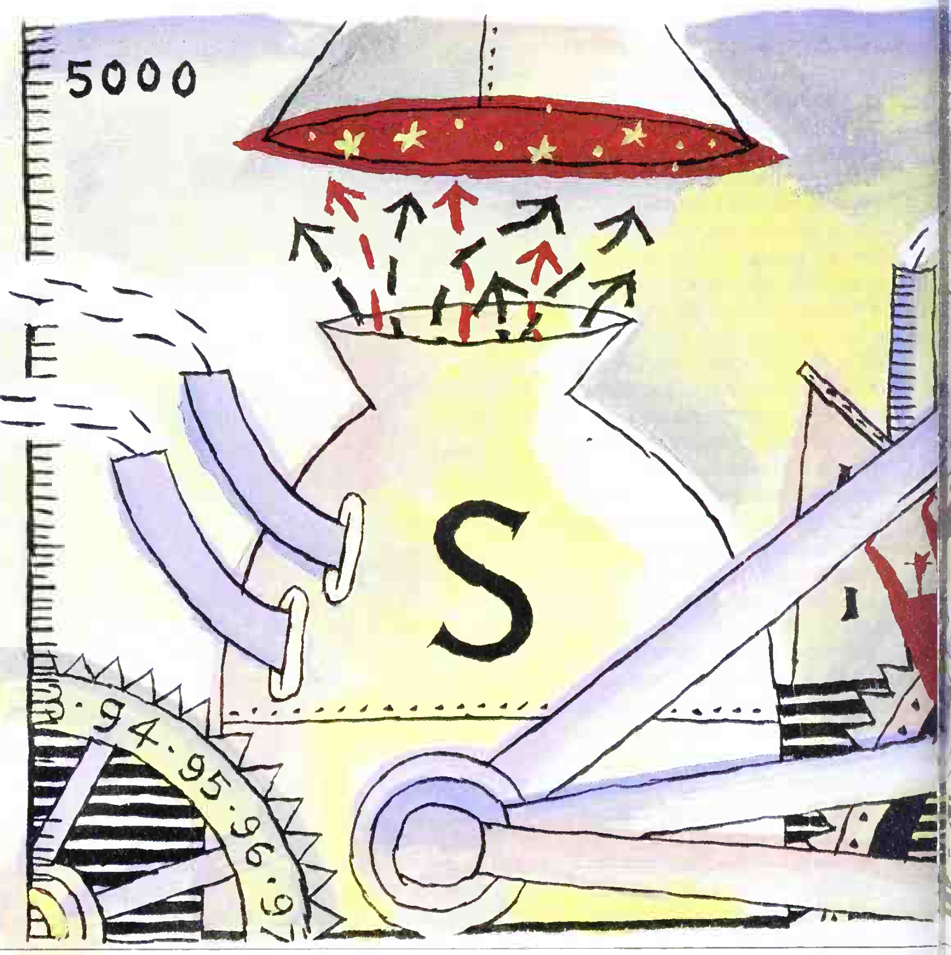
But in recent weeks, as evidence of the slowing economy—sluggish auto and new-home sales, declines in industrial production, and a far-worse-than-expected employment report—continued to mount, investors have begun to wonder whether the economy might have a hard landing. "In the coming weeks, we're going to be hearing a lot of talk about a recession and a bear market," warns Byron R. Wien, U. S. equity strategist at Morgan Stanley & Co. Wien doesn't think either will come to pass, but the anticipation of both, he believes, will be enough to roil the stock market and shave several hundred points off the Dow.

LOST GROUND. Indeed, a correction is overdue. The Dow hit a low of 3675 on the day before Thanksgiving, gained 160 points by New Year's—and has shot up more than an additional 650 points since then. All of it came without so much as a 3% pullback. And the market hasn't had a 10% correction since 1990, though the first quarter of 1994 came close.

Odds are that any correction will be short-lived: The vast majority of mutual-fund and pension-fund managers have underperformed the market so far this year, and they may well view a correction as another chance to make up lost ground. And individual investors, who increasingly buy their stocks through equity mutual funds, seem to be fairly steadfast. "The market's resiliency over the years has given investors—especially the baby boomers—the confidence to hold on," says Arnold Kaufman, editor of *Standard & Poor's Outlook*, an investment newsletter.

Some pros think a modest pullback will serve as a much needed reality check. "I worry that investors have become complacent about earnings," says Wien. The dramatic drop in interest rates—nearly two percentage p
since their peak late last year—is t
nancial markets' confirmation of
slowdown in the economy. Yet data
vices that collect analysts' forecast
port that the ratio of upward to d
ward revisions for this year is
nearly 2 to 1, and forecasts for
are going up as well. "There may
lot of talk about a slowdown, but
certainly don't see it in the earn
estimates," says Benjamin L. Zack
Zacks Investment Research. Estim
are rising at a wide array of co
nies, while markdowns are concentr
in cyclical industries such as a
homebuilding, and retailing.

All told, earnings forecasters are



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in the S&P 500 to
e in at $35.47 a
e, according to First
Corp. (chart). That
esents a hefty 15.7%
over 1994. The
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s who follow com-
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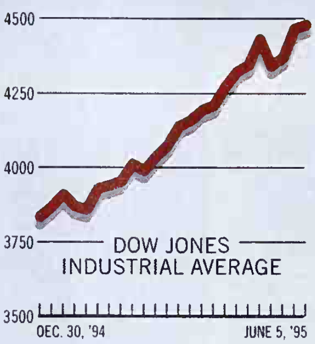
e under $38, repre-
ng nearly a 24% increase over last



ONWARD AND UPWARD WITH THE DOW

DATA: BLOOMBERG FINANCIAL MARKETS

T SHAPE.” Of course, there are
reasons for the upbeat forecasts,
ially from analysts who know the
anies best. After years of massive
fs and restructuring, U. S. indus-
as reduced its overhead, enhanced
ctivity, and learned how to com-
in the global market. “I'm extreme-
llish on America Inc.,” says Tony
el, a portfolio manager on the $11.4
n Putnam Fund for Growth & In-
. “We're in the best shape structur-

ally we've been in for 20 years.” In addition, the weaker dollar gives U. S. companies an edge in foreign markets.

Still, the newly revitalized America Inc. has yet to demonstrate that it can march through an economic slowdown without missing a beat on earnings. The first test of this may come in July, when companies begin to report second-quarter results. A few disappointments from high-profile companies could send many investors heading for the exits.

But if investors are overestimating the power of earnings, they're probably underestimating the impact of lower interest rates on stock market values. Stanley Levine, quantitative research director at First Call, uses the yield on a 10-year U. S. Treasury bond, now at 6%, to calculate a “fair value” price-earnings ratio for the market of 16.7. (He simply divides 1 by the yield.) Then he figures the p-e based on the 12-month earnings outlook by dividing the level of the S&P (now 536) by the next four quarters' earnings forecast ($37.79). That yields 14.2, which indicates the S&P is undervalued. What's a fair value for the S&P? Multiply the earnings by fair value p-e of 16.7. That puts the fair value of the index at 631, nearly 100 points higher than it is now. That's roughly 5000 on the Dow.

Think the slowing economy will force earnings down a few notches? So does Morgan's Wien, who expects 1995 S&P earnings per-share of $34. But even so, Morgan Stanley's valuation model, which uses a 30-year U. S. Treasury-bond yield, still comes up with 616 as the fair-value target. “That's why investors should ride out any correction,” says Wien. “Stocks are undervalued.”

That's also why investors who have missed this rally should start making a shopping list—and then buy on the pullbacks. Here are some suggestions for where to look:

Technology. Investors may be reluctant to buy tech stocks, since the group is already up 40% and tends toward sell-off in the summer. But business prospects are excellent, and analysts say leaders such as IBM, Intel, Micron, Microsoft, and Texas Instruments would be attractive on pullbacks. What's more, IBM's surprise bid for Lotus Development Corp. could trigger more takeover activity and higher prices.

For more cautious sorts, Laszlo Birinyi of Birinyi Associates suggests Baby Bells: Ameritech, BellSouth, Nynex, and Southwestern Bell. Although primarily utilities, they're rapidly expanding into new information and communications technologies. Says Birinyi: “You get nice, healthy dividends and a secondary technology play.”

Financial. Falling rates are a boon to all sorts of financial stocks, and as expected, they have been great performers. But there's still money to be made. Putnam's Kreisel especially likes banks: The fundamentals are sound, deregulation and interstate banking offer new opportunities, and the banks are hiking dividends and buying back shares. Among his favorites are BankAmerica, Citicorp, Fleet Financial, J.P. Morgan, and Wells Fargo.

ACTION

BARGAIN TIME

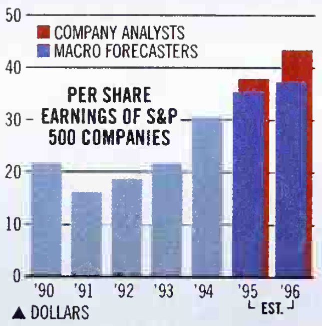
Get ready to buy high-tech, banking, and maybe even retailing issues on any weakness in the market

Retailing. With the economy slowing, you wouldn't expect to see retailers on anyone's buy list. But several investment pros think they're good bets. Strategist David G. Shulman of Salomon Brothers Inc. is wary of the stock market in general but thinks department-store operators such as Dillards, Federated, and May are smart buys. “Expectations are so low that [even] a little improvement will move the stocks,” he says. Where might that come from? Foreign tourists, lured to the U. S. by the cheap dollar, will head for the stores.

Small-cap stocks. Large-capitalization stocks such as Walt Disney, Merck, and Philip Morris led the way this year. Small-company stocks have fared only about half as well. Well-managed small companies with good niches thrive in almost any economic environment. Which ones? See the story on small-cap stocks (page 82).

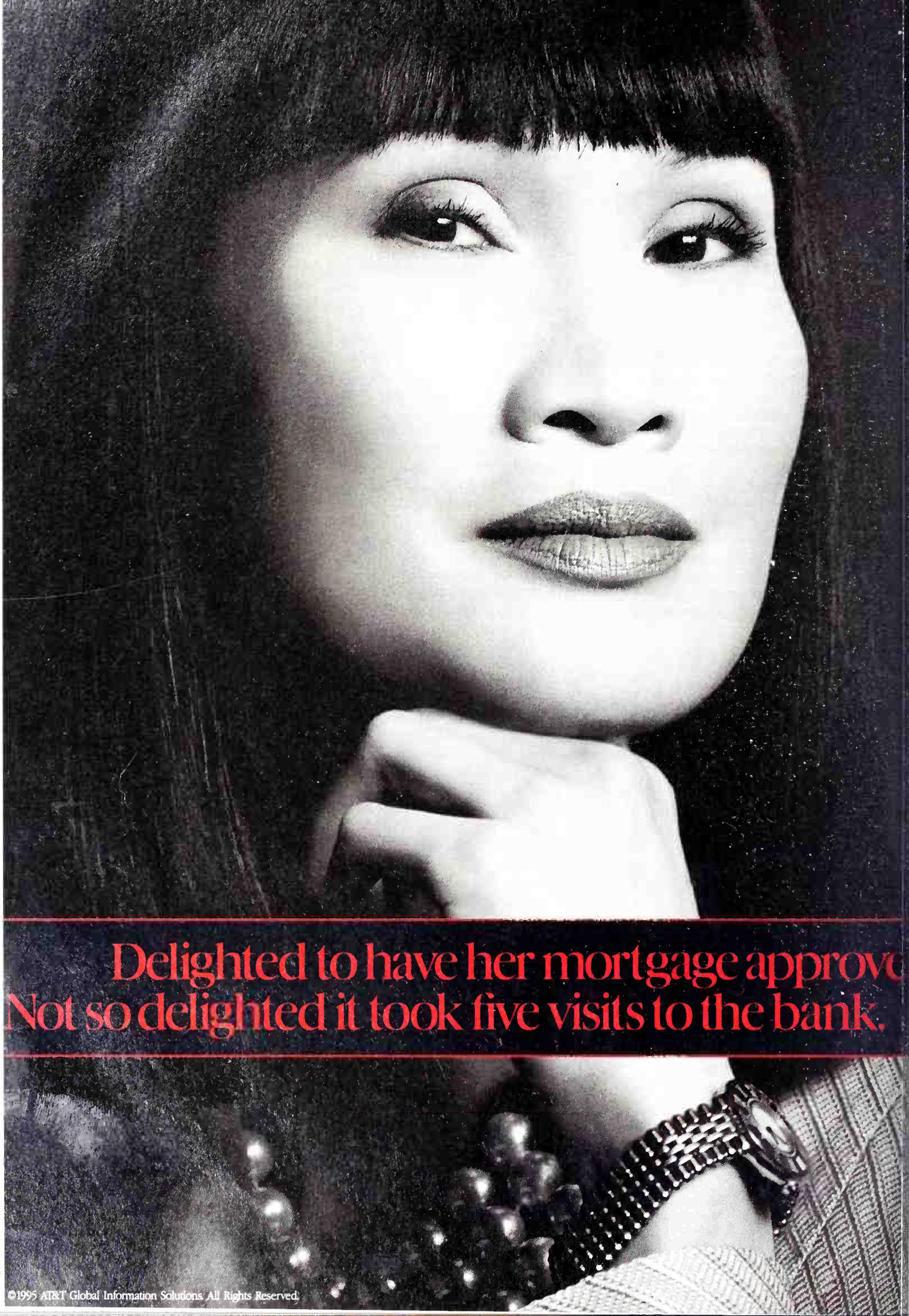
By Jeffrey M. Laderman in New York

EARNINGS ARE STILL ON THE RISE



DATA: STANDARD & POOR'S CORP., FIRST CALL CORP.

CHARTS BY ROB DOYLE/BW


Delighted to have her mortgage approv
Not so delighted it took five visits to the bank.

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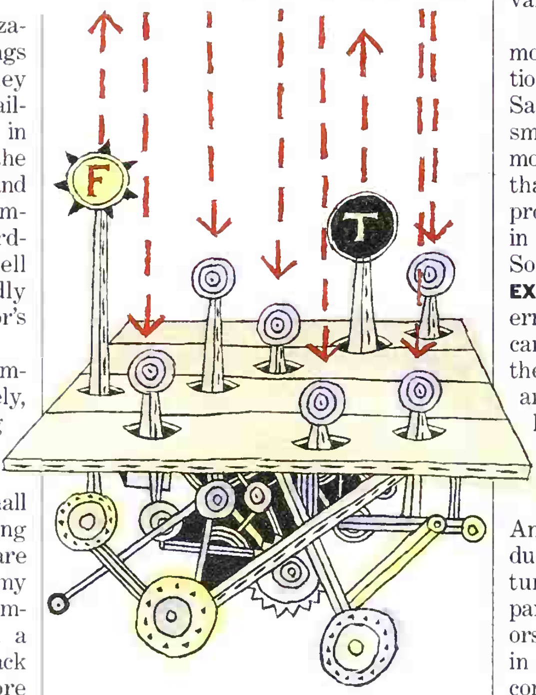
Small Caps: Out of the Tunnel?

As the economy slows, this sector's prospects brighten

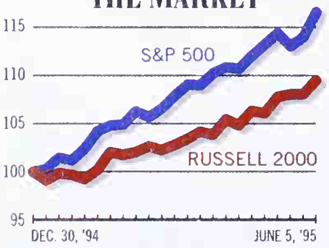
Two years ago, small-capitalization stocks were the darlings of investors. Last year, they stalled, and now they're trailing the pack. The group has suffered in 1995, as skittish buyers moved to the comfort of familiar blue-chip names and as the weak dollar aided larger companies with foreign revenues. Accordingly, such measures as the Russell 2000 Small Stock Index have badly underperformed the Standard & Poor's 500-stock index.



Just weeks ago, prospects for an imminent turnaround appeared unlikely, analysts said. But now, the slowing economy gives small-cap investors cause for optimism. Claudia Mott of Prudential Securities notes that small caps, which began underperforming large companies in February, 1994, are likely to outpace them once the economy stalls. The reason: Although small companies are typically hurt early in a downturn, their earnings bounce back faster, since they can respond more quickly to the business cycle than their big brothers.

"DAMN NERVOUS." Falling interest rates should also help small companies, which tend to do relatively more short-term borrowing than large ones. And the possibility of a cut in capital-gains tax could entice investors toward small companies, because they generally pay little or no dividends. So far, however, these glimmers of hope haven't been enough to set the sector afire. "Pretty universally, people are damn nervous about investing in small-company stocks," says Michael P. DiCarlo, a portfolio manager at John Hancock Funds in Boston. But for value investors such as DiCarlo, this bad news is actually good news. Noting that on a price-to-book-value basis, small-cap stocks are cheaper than they've been since 1990, bargain hunters are finding lots to buy.

SMALL CAPS TRAIL THE MARKET



DATA: BLOOMBERG FINANCIAL MARKETS

CHART BY ROB DOYLE/BW

Technology is the small-cap sector DiCarlo likes best. Dismissing fears that the Russell small-cap technology group, up 13.8% in the first five months of 1995, may be overblown, he says the boom could last till the end of the decade. He particularly likes America Online Inc. Buying shares of AOL, he says, is "like investing in television in the 1940s." (AOL and BUSINESS WEEK are partners in a venture that gives AOL subscribers electronic access to the magazine.) Atmel Corp. and Adaptec Inc. are among his other favorites. Atmel makes integrated circuits, and Adaptec manufactures devices that allow computers to communicate with peripheral equipment.

Energy is another appealing small-cap sector. Greater demand for fossil fuels and industry consolidation are fueling the interest of investors such as Michael A. Berry, managing director of Dre Value Management and an advis its Dreman Small Cap Value Fund. ry especially likes KCS Energy Inc Edison (N.J.) oil-and-gas outfit w shares have been depressed becaus a lawsuit filed by Tenneco Inc. ov 1979 contract. "People overreacted pushed the price down," says Be who thinks that KCS, whose stoc now trading at 18¾, will ultimately vail in the dispute.

Money managers are also pa more attention lately to company tion. According to Merrill Lynch & Satya D. Pradhuman, the prospect smaller companies generally are more closely to their regional econo than those of bigger ones. That proved to be good news for compa in such economically robust areas a Southeast and the Great Lakes.

EXPORT OPENING. A strong Midw ern economy has boosted First An can Regional Equity Fund by 18 the first five months of this year. F ard J. Rinkoff, who manages the f likes Aetrium Inc. in North St. I Minn., a maker of testing dev for the semiconductor industry boasts a 20% aftertax profit ma Another top choice is Automotive dustries Holding, a nonunion manu turer of plastic parts for car interiors. Headquartered in Minneapolis, the company enjoyed a 47% surge in sales last year.

ACTI

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Take a long
and look fo
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While most small caps are planted firmly in U.S. markets, there are some with enough overseas business to benefit from the anemic dollar. Mike Berry's Dre fund owns shares in Sofamor Da Group Inc., a Memphis health-care pany he says controls 42% of the w wide market for spinal implant dev The fund also holds stock in Me International Inc., which buys as from the former East German gov ment and turns them around u Western technology and manageme

Over time, small companies cle outperform their larger brethren, "you have to be an investor as opp to a trader," warns Ron Baron, a York money manager. If past pe mance is any indication, small-cap vestors should get their just rew soon.

By Nanette Byrnes in Los Ang

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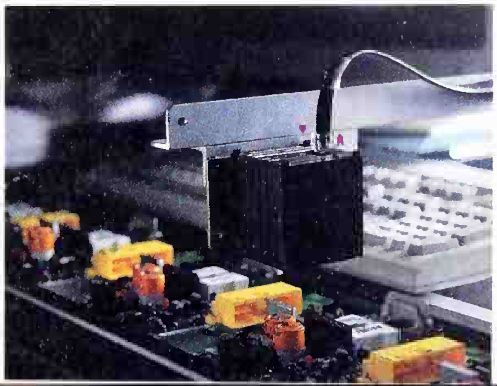

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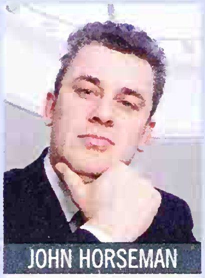
Four Pros Took the $100,000 Challenge. Two Passed

The only stock-picker who decisively beat the S&P chose mostly foreign issues

At the beginning of the year, BUSINESS WEEK invited four top money managers to invest a mythical $100,000 in 10 stocks for one year. Only one of the managers, John R. Horseman of the GAM International fund in London, beat the market decisively, racking up a return of 21.2% excluding dividends, vs. the Standard & Poor's 500's 16.6%. The other winner edged out the market with a 16.9% record. All of the results are of June 5.

HOW THE PROS FARED



JOHN HORSEMAN

JUSTIN S. MAZZON

JOHN R. GARDNER

DOUGLAS JOHNSO

	JOHN HORSEMAN	JUSTIN S. MAZZON	JOHN R. GARDNER	DOUGLAS JOHNSO
PERCENT CHANGE* Dec. 12, 1994 to June 5, 1995	UP 21.2%	UP 16.9%	UP 14.6%	UP 6.9%
BIGGEST WINNER	KPN 42%	EASTMAN KODAK 35.5%	DISNEY 32%	GENZYME 40%
BIGGEST LOSER	CANON –8%	TOYS 'R' US –24%	INTEGRATED HEALTH SVCS. –2.5%	GRUPO TELEVISA –57%

STANDARD & POOR'S 500-STOCK INDEX + 16.6%

*Excludes dividends
DATA: BUSINESS WEEK

LEFT TO RIGHT: PHOTOGRAPHS BY MARK HARRISON/KAT, SABA; RICHARD MORGENSTEIN, BRIAN SMITH, CHRIS SCHRAMECK

Horseman, who is British, did well not only with his non-U.S. stocks, which generally lagged the U.S. market, but with his U.S. picks as well. The other three pros, all Americans who focused mainly on U.S. stocks, which had a big run, did a good deal less well. Horseman's three U.S. stocks—McDonald's, Coca-Cola, and an obscure thrift called Queens County Bancorp—were up an average of 27%. Horseman scored in China, with Shanghai Petrochemical up 30.6%, and with two big Dutch companies, telephone and postal service company KPN, and Fortis Amev, a bank and insurer—up 42% and 32%, respectively. The falling dollar sharply boosted his returns: In their native currencies, Horseman's Dutch and French picks rose about 7.9%, but after taking the dollar into account, they were up 29%. His only blunder was Canon in Japan, down 7.6%.

PLAYING MONOPOLY. Horseman, who declined to be interviewed, said in a written statement that his top pick for the second half is Singapore Press Holdings, already up 12.5% in the first half. It has a monopoly on Singapore's newspapers, and Horseman thinks it will benefit from a strong Singapore dollar, rising ad revenues, and stable paper prices.

What most hurt the American managers was their generally defensive approach to the market. Two of the managers in particular believed that the four-year bull market and the economy had run out of steam. "The move in the first half surprised me," says John R. Gardner, who manages institutional money at Van Liew Capital in Providence. Justin S. Mazzon, a big-cap specialist with American Blue Chip Investment Management Inc. in Larkspur, Calif., expected the market to stay flat all year, causing him to search out stocks with good dividends. Mazzon and Gardner correctly bought into some big-cap consumer stocks, but they missed the technology rally. Ironically, Horseman had predicted an "uninspiring" market for U.S. stocks this year. But that prediction didn't stop him from choosing issues wisely.

The fourth investor, Douglas Johnson, until recently a fund manager with Safeco Mutual Funds in Seattle, favored down-and-out issues that generally formed well. But he bought one Me stock that got hammered by the crisis and had two other substa losers.

Mazzon was the runner-up, wi 16.9% gain. Dividends added anc 1.6%. He concentrated on big-cap st putting 75% of his money into ron, Eastman Kodak, 3M, and S Roebuck, which were up an averag 21.6%, and Woolworth, which wa just 8.1%. Toys 'R' Us Inc. dragged results down by dropping 24%. Mazzon believes it will recover in second half, as a new generation of eo games begins to perk up sales. top pick for the second half is Se Although it has jumped 27% this Mazzon thinks shareholders will be if Sears spins off its Allstate sub ary to them. He thinks Allstate sh could jump 20% more to $35-$36 a s by the end of the year.

Gardner, the most cautious man in the group, gained 14.6%. He ea another 1.1% from dividends, whic sought because of his bearish out Gardner picked companies laden

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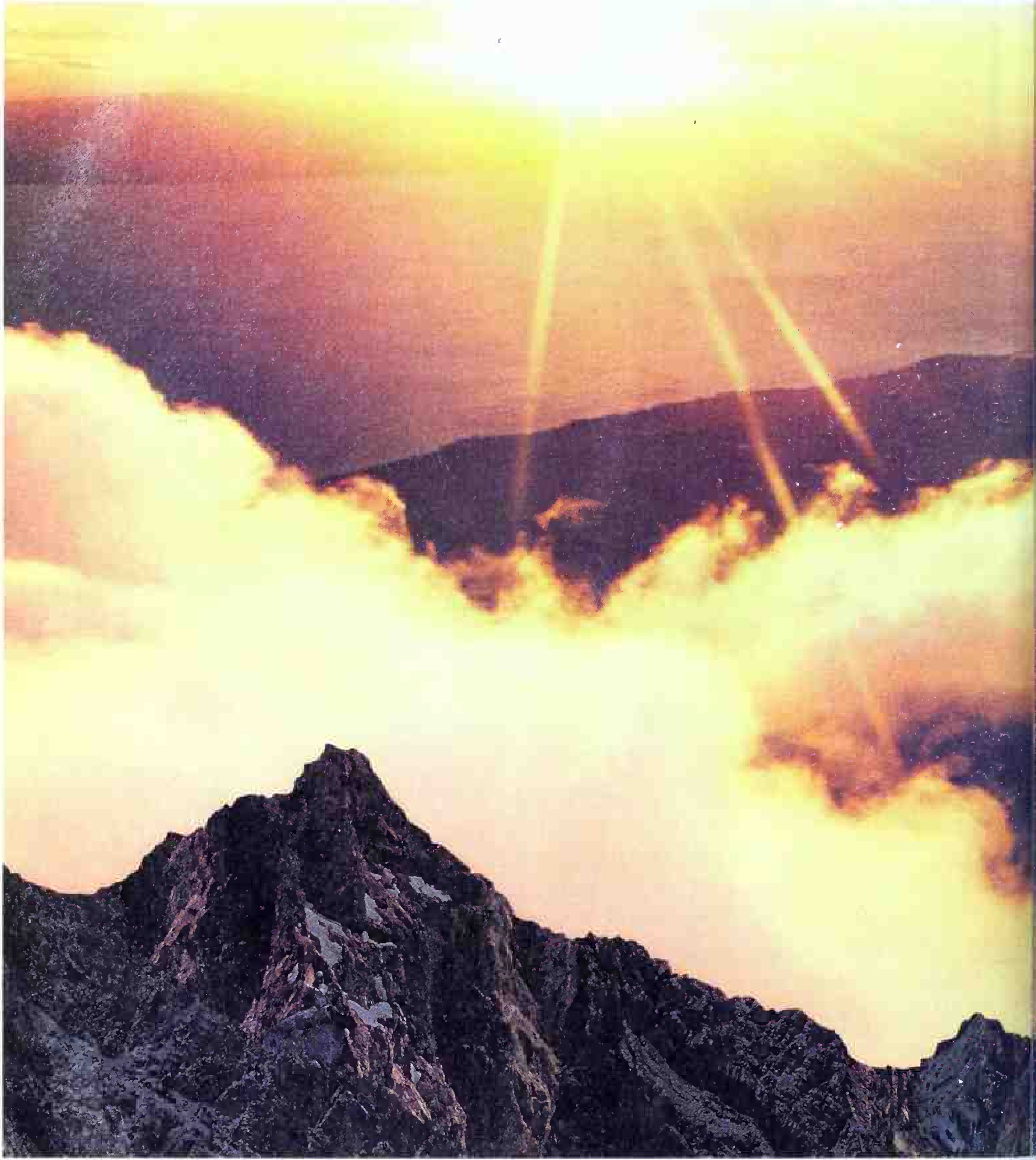

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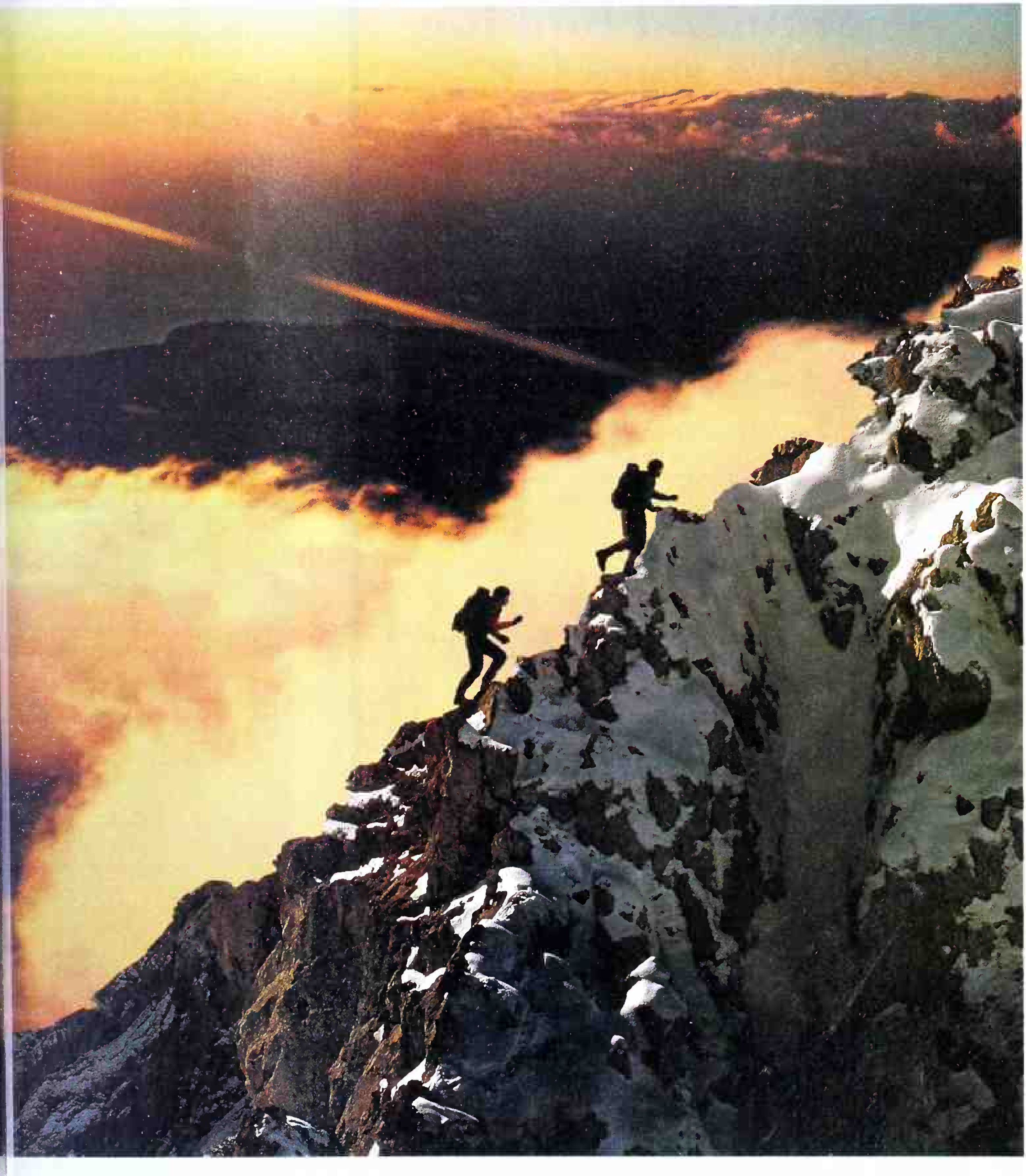

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cash in anticipation of a recession. V
cash-rich gold-mining companies P
Dome and Fluor performed admir
his high-tech stocks—Newbridge
tems, Motorola, and British cel
phone company Vodaphone—missed
industry's boom.

Gardner was also saddled with a
estate investment trust, Equity
dential Properties Trust, which ear
handsome dividend but barely buc
Another poor pick was Integr
Health Services, which fell 2.5%.
was a relatively modest loss, consid
that nursing home company sh
plummeted early in the year afte
ports of accounting irregularities. G
ner, who says concerns about the
pany's finances are overblown, rat
his top pick for the second half. E
ings are still growing about 25% an
ly. He is worried that his biggest
er—Walt Disney Co., up 31.8%–
topped out, and he has trimmed hi
sition in the stock. "I wouldn't he
to take gains," he says.

SABOTAGED. Johnson, who assem
a group of down-and-out stocks wi
worrying about dividends, ended
first half with a mere 6.9% gain
profits in biotech giant Genzyme
and machine-tool company Giddin
Lewis Inc. were blown out by G
Televisa, which plummeted 57%
bet on Callaway, the golf-club comp
which sagged 15.5%, and private-
clothing maker Paragon Trade Br
Inc., which fell 17.4%. Johnson cou
comment on any specific stocks be
he is preparing to launch a new
for Smith Barney Inc. that is st
registration.

All four investors have widely di
ent second-half outlooks. Horsema
pects U. S. and European interest
to decline as their economies slow,
ing stocks with good earnings gr
attractive. Johnson thinks opportu
remain despite the market's big g
He likes several beat up sectors, in
ing retailers, HMOs, and cable-TV co
nies. Mazzon is worried about a s
short-term correction, but believes
market will end the year near re
levels.

Gardner, still the most pessim
questions whether the first half's h
can be sustained. "With so much
news already out, what's going to c
an encore?" he says. The BUSI
WEEK investors who asked the s
thing at the beginning of 1995 woun
lagging behind the market. It's pos
their skepticism could cost them a
in the second half.

By Geoffrey Smith in Bo

IMPSAT advances next century in business communications with Latin America

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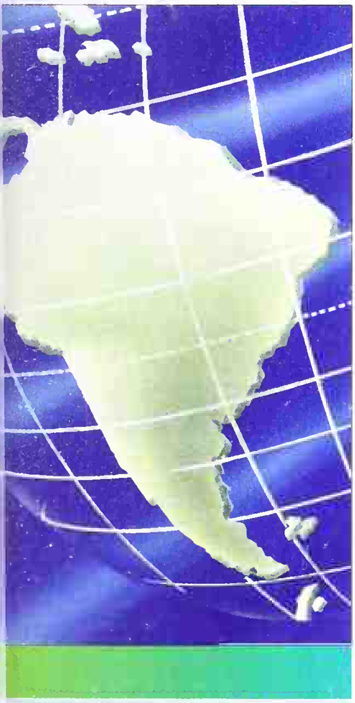

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Interest Rate Swaption
for
Sinclair Broadcast Group, Inc.

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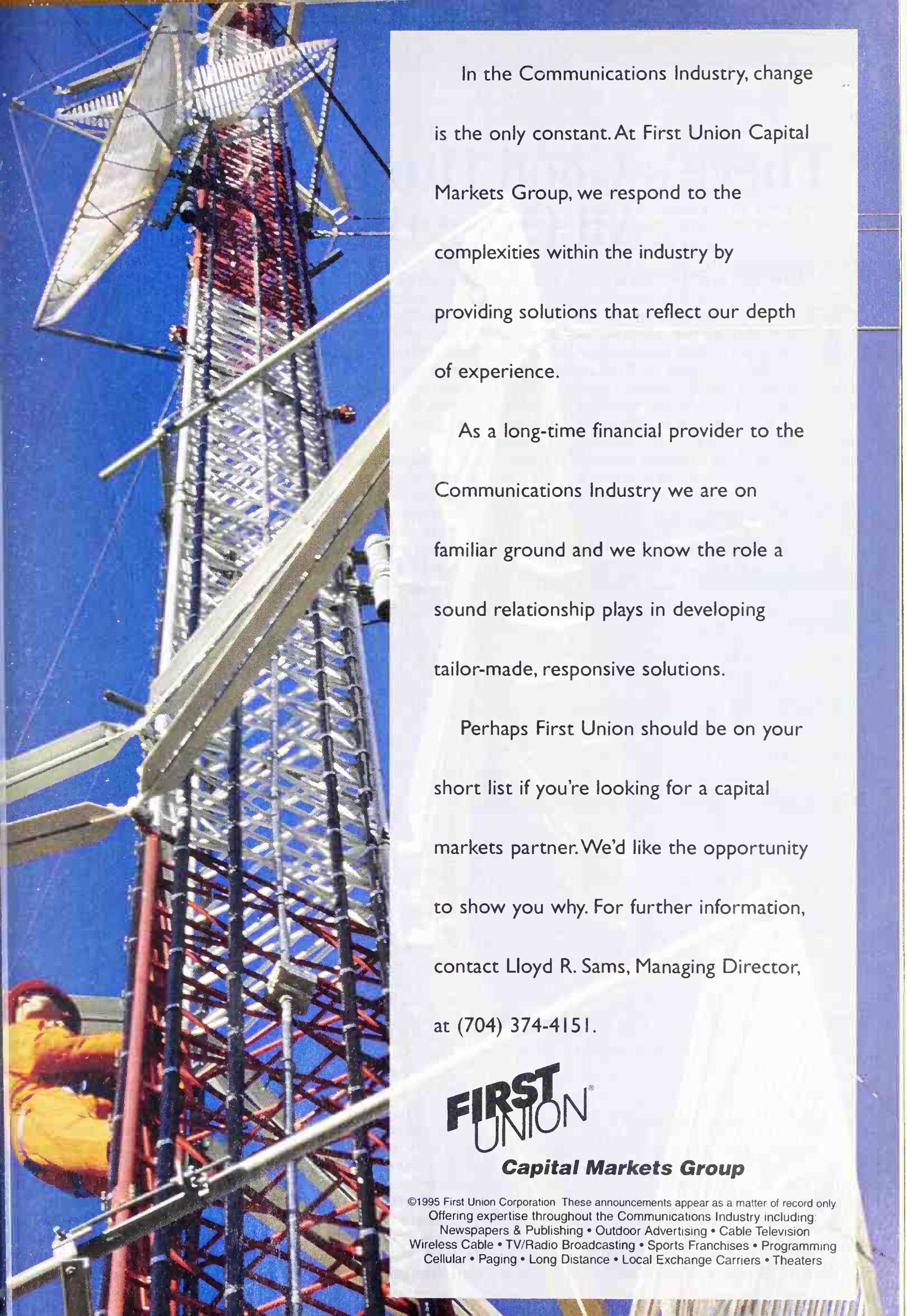
Capital Markets Group



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There's Good Hunting on Bourses All Over the World

Inflation is tame, and market gurus are remarkably upbeat for the second half

This was supposed to be the year that global stock investors steered into safe harbors. A slowing economy in the U.S., deflation in Japan, and the Mexican market meltdown had forecasters predicting a yawn of a year, with the world's major markets moving sideways at best. Instead, the Dow Jones industrial average is pushing the 4500 envelope, many of Europe's markets are actually up a bit, and investors are recovering from the "tequila effect" that frightened them away from emerging markets.

Global stock gurus are now remarkably upbeat for the second half. For one thing, the gradual economic slowdown in the U.S. and Europe is being widely heralded as good news: With inflation tame, central banks are increasingly likely to cut interest rates later in the year. And many market watchers believe the worst is over for the dollar. Recent central bank intervention to stabilize the greenback seems to signal that authorities don't want to see it go much below 84 Japanese yen or 1.4 German marks.

CLEAN SHEETS. A stronger dollar would come as good news for Japan (page 98), where the high yen has aggravated a dramatic economic slowdown and helped push the Nikkei stock average down 20% this year alone. A dollar bounceback would certainly help Europe's exporters—the only engines of recovery on the Continent so far. But even if you don't think the buck has hit bottom, there are reasons to be bullish on Europe's markets, down about 10% on average over the past 12 months. Talal Shakerchi, manager of the European portfolio at Old Mutual Portfolio Managers Ltd., thinks equities will get a boost from stronger U.S. cash inflows.

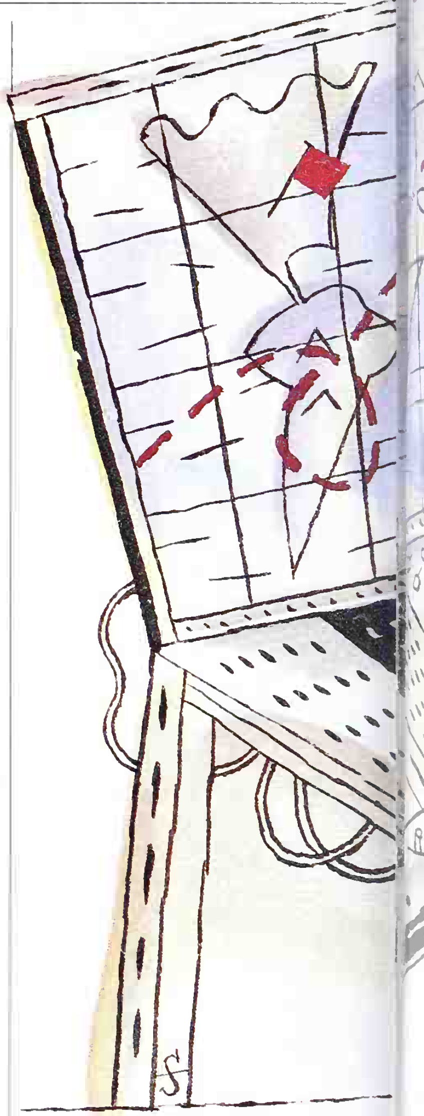
Shakerchi also believes German interest rates will come down—and that will be good news for financial stocks across Europe. His favorites include the Scandina banks—Skandinaviska Enskilda Ba and Svenska Handelsbanken in S den, and Den Norske Bank in Nor After the real estate disasters of early 1990s and government move take bad assets off the books, "t banks have extremely clean bal sheets, and they're unlikely to m the same mistakes anytime soon,'

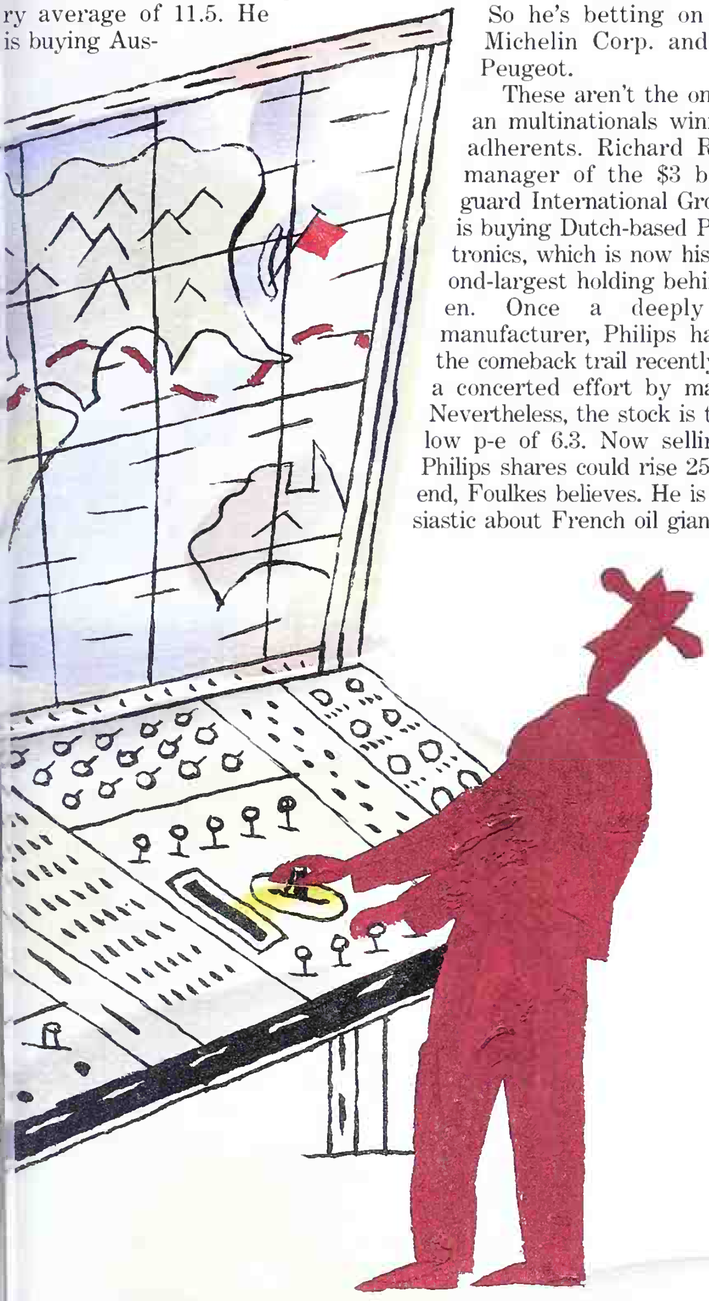
GROWTH PICKS ON THREE CONTINENTS

EUROPE		
ELF AQUITAINE	French oil producer is finally cutting costs	$40*
ICI	British chemical maker is beating rivals who price in German marks	50*
S-E BANKEN	With a cleaned-up balance sheet, Swedish bank offers good value	5
MANNESMANN	German engineering company could benefit from stronger dollar	303*
ASIA		
FRASER & NEAVE	Singapore's fast-growth food and beverage company	13
GIORDANO HOLDINGS	The Gap of Asia, Hong Kong-based and growing fast	5
HUTCHISON WHAMPOA	Infrastructure, trade—and an inside track to China	25*
UEM	Malaysian construction conglomerate riding building boom	7
LATIN AMERICA		
PEREZ COMPANC	Argentina's well-run energy conglomerate	4
VALE DO RIO DOCE	Giant Brazilian iron ore exporter is due to be privatized in 1996	0.18
GRUPO ALFA	Steel and petrochemical exporter tops many Mexico buy lists	5
BACKUS & JOHNSTON	Peruvian brewer expects 10% volume growth in 1995	2

Prices as of June 6 *ADRs

DATA: BUSINESS WEEK SURVEY OF ANALYSTS AND FUND MANAGERS





. S-E Banken and Handelsbanken ently trade at price-earnings ratios 9 and 5 respectively, compared with ıropean bank average of 11.8.

lsewhere in Europe, Shakerchi likes rian power utility Verbund. Its p-e is below 10, vs. a European in- ry average of 11.5. He is buying Austrian brewers Brau Union and Ostbräu ir growth potential. And he rec- nds Swiss insurer Bâloise: It's at a 40% discount to the value of ets and may be a takeover play.

l, Marcus Grubb, who heads glo- uity strategy at Swiss Bank thinks stocks are nicely priced in major European markets. Grubb likes Germany, where Frankfurt's DAX stock index "is due for a catch-up rally." Cyclicals—including Linde, Deutsche Babcock, and Thyssen—get his nod. Grubb also believes the French franc will weaken and falling interest rates will fatten consumers' wallets. So he's betting on tiremaker Michelin Corp. and carmaker Peugeot.

These aren't the only European multinationals winning global adherents. Richard R. Foulkes, manager of the $3 billion Vanguard International Growth Fund, is buying Dutch-based Philips Electronics, which is now his fund's second-largest holding behind Heineken. Once a deeply troubled manufacturer, Philips has been on the comeback trail recently, thanks to a concerted effort by management. Nevertheless, the stock is trading at a low p-e of 6.3. Now selling for $40, Philips shares could rise 25% by yearend, Foulkes believes. He is also enthusiastic about French oil giant Elf Aquitaine, which has finally done some difficult cost-cutting.

Further afield, a number of stockpickers are impressed with Poland, where exports were up 40% in the first quarter from the year-earlier period. Shakerchi admires the stock market there for its high reporting standards and strict regulation, which "make it like a Western market." David Mars, Central and Eastern Europe strategist at Swiss Bank, agrees that "over the next 12 to 24 months, Poland looks to be the market to beat." Mars is playing the Warsaw index, where average p-e ratios, most of them in the 5-10 range, are at half the levels to be found in other low-cost exporting countries such as Spain.

In fact, as the developed world slows, emerging markets are again coming to offer value and growth. Michael J. Howell, strategist at Baring Securities International Ltd. in London, says "emerging markets, at the moment, are a haven for the value investor." Thanks to Mexico's peso crisis, many of these markets are at their cheapest, relative to the developed world, since the Persian Gulf war in 1991. What's more, after last year's U.S. interest-rate hikes and the peso shock sent emerging markets plunging all at once, many have recovered.

ACTION

COMEBACK

Don't slight emerging markets, which are starting to recover from the "tequila effect" of Mexico's peso crisis

In Southeast Asia, for example, the liquidity drain caused by foreigners pulling their money out in 1994 held back stock markets throughout the region, even where corporate earnings kept rising—in Indonesia, Thailand, and the Philippines, for instance. Now, with U.S. interest rates falling and money flowing back in, Asia is the area "I feel most confident about over the next six months," says Vanguard's Foulkes.

CLOSE TIES. Most analysts agree that Hong Kong is in for a growth slowdown—perhaps to 5% from an earlier projected 5.5%—but the market still has some nicely valued regional plays. Foulkes is buying Hutchison Whampoa, the infrastructure conglomerate, as a "major player on the region's general growth and prosperity." Not only does Hutchison have far-flung Asian cargo handling, warehousing, and property development businesses, but its chairman, Li Ka-Shing, also has close ties in Beijing's political circles. At around $5, Hutchison stock is trading at 13 times estimated 1996 earnings per share.

If you'd rather focus on a single fast-growth market, you might want to check out Singapore. Its market drifted aimlessly in the first half. But Merrily Chiam, an analyst at Nomura Research Institute (Singapore), suggests that awesome earnings reports could push stocks up 10% by yearend. She favors Fraser & Neave, an expanding regional food and beverage group with exposure in mature markets such as New

Zealand and emerging ones such as India. Chiam also likes Keppel Corp., a conglomerate with ship repair, banking, and telecommunications businesses, among others. Both Keppel and F&N are blue chips that she expects to trade at higher multiples over the next few months.

Chiam is also a fan of neighboring Malaysia, where the official goal of reaching developed-nation status by 2020 should spell higher profits for infrastructure companies. One beneficiary could be IJM Corp., a construction company with an order book of more than $408 million. She also likes United Engineering (Malaysia), with its exposure to toll-road building, engineering, and cement production.

POISED FOR GAINS. Bank and other financial stocks weigh heavily in most Asian indexes, and they remain useful proxies for markets with good prospects. Thai Farmers Bank and Krung Thai Bank get votes from Sriyan Piterz, a strategist at Capital Nomura Securities in Bangkok, as plays on the Thai economy and U.S. rates. Piterz says Thai Farmers has been broadening its noninterest-income base and getting into debt underwriting. Krung Thai, meanwhile, has Thailand's largest retail network and is poised for further gains as the middle class expands.

What of the tequila hangover in Latin America? Six months after the Mexican peso devaluation, Latin American markets are rebounding, but analysts warn that much uncertainty about the region's economies remains. That's particularly true for the region's three biggest markets. Investors will be watching the effect of Argentina's recession on corporate earnings, the pace of Brazilian economic reform, and the potential for social unrest as Mexico enters the worst of its recession.

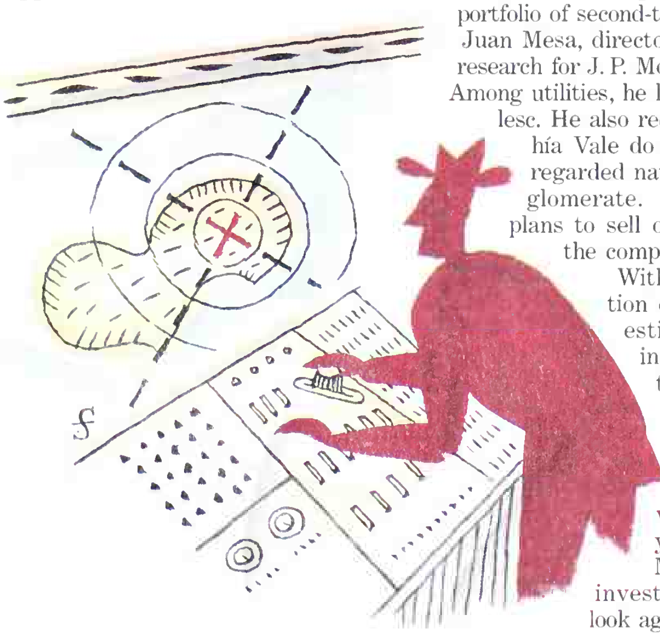
HOW THE BOURSES ARE DOING

1995 percentage change

	In local currency	In dollars
BRITAIN	10%	12%
GERMANY	2	12
SWITZERLAND	7	20
FRANCE	5	12
CANADA	6	7
JAPAN	–20	–7
HONG KONG	16	16
MEXICO	–15	–30
AUSTRALIA	5	–2
U.S.	17	17

DATA: BLOOMBERG FINANCIAL MARKETS

In Brazil, where a slow start hasn't killed most investors' faith in economic reform, analysts suggest focusing on expected privatizations and companies that will continue to benefit from strong domestic demand. Some stock-pickers are buying Telebras, the national phone company. But others prefer smaller offerings. "If you fundamentally believe in Brazil and know that reform is going well, then it's a good time to build a portfolio of second-tier companies," says Juan Mesa, director of Latin America research for J. P. Morgan Securities Inc. Among utilities, he likes Cemig and Celesc. He also recommends Companhía Vale do Rio Doce, a highly regarded natural-resources conglomerate. The government plans to sell off its 51% stake in the company in 1996.



With an average valuation of about 10.5 times estimated 1995 earnings, analysts argue that there's strong value in the Argentine market, even though earnings growth will be weak this year. J. P. Morgan's Mesa believes that investors will begin to look again at company fundamentals rather than merely tra
on the country's macroeconomic
pects. He is recommending the two
phone companies—Telecom Arge
and Telefónica de Argentina—along
the Buenos Aires electrical utility
tral Costanera. He also likes P
Companc, an energy company
interests in oil exploration and p
chemicals. Its aggressive manage
has taken shares in privatized Ar
na companies.

WEAK-PESO PLAYS. Despite Me
peso collapse and private forecast
4% contraction in gross domestic
uct this year, some hardy money m
ers see opportunities in the market
Bolsa index is still down almost 5
dollar terms since last fall, and st
have yet to bounce back to predev
tion levels. Still, they have clir
steadily in the past two months.
lysts cite such blue-chip bargair
Grupo Televisa's American depos
receipts, which are down 45% s
this year.

The peso's drop against the g
back is good news for export-orie
companies with manageable debt
dens. Grupo Alfa, with exports of
and petrochemicals to a variety of
kets, heads many analysts' lists.
weak-peso plays include mining co
nies, such as Indústrias Peñoles
Grupo México. Then there's bo
Coca-Cola Femsa, whose 51% sha
the Buenos Aires Coke franchise is
ly to offset this year's slide in Me
demand, providing income in strong
gentine pesos.

Some analysts stand staunchl
beat-up Teléfonos de México, w
ADRs have skidded 25% so far this
At about $30, Telmex is now tra
near the price it fetched in its 1991
vatization. But since then the p
company has poured more than $8.
lion into everything from digital sw
es to rural lines. "Telmex will al
keep growing," insists José Mondr
director of Arka Securities in La
Calif.

The guaranteed-expansion argu
is behind investors' return to emer
markets everywhere. After all, the
damental reason for buying into the
intact: Their long-term growth
pects still far outstrip those for d
oped countries. But in today's lo
flation environment, stock seekers
find plenty of buying opportunities
in the industrial world.

By Joan Warner in New York,
Bill Javetski in Paris, Elisabeth M
in Mexico City, and Dave Lindor
Hong Kong

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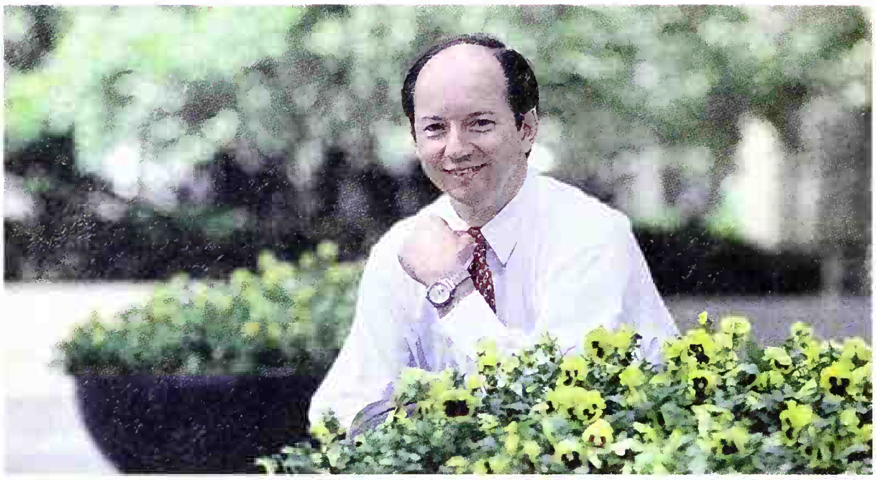

WHAT ROSES? *Merrill's Morgan wouldn't be surprised by a recess*

KI HO PARK / KISTONE

Deep in the Nikkei, a Few Pearls

Got an iron stomach? Then here's what to bet on

In Japan these days, the bad news never seems to end. The Kobe earthquake, runaway yen, plunging prices, and terrorist gas attacks have dampened consumer confidence, crimped a corporate earnings rebound, and sent the Nikkei stock average tumbling 20% so far this year. With many analysts predicting the average could fall below 14,000—an 1,800-point drop from the current level—trading volume is so low that you could find more action at a penny-ante poker game. "I think the outlook is appalling," grouses David Pike, equity strategist at Barclays de Zoete Wedd.

Most economists believe Japan's gross domestic product will grow no more than 0.5% in the fiscal year ending next Mar. 31. Even the few remaining bulls are getting edgy. One of them, Merrill Lynch & Co. chief Tokyo economist Peter Morgan, recently slashed his GDP forecast from 1.7% to 1% after news that inventories were up for the fourth straight month and unemployment had jumped to a record 3.2%. Unless the yen suddenly weakens, he says, "we are going into a recession."

LOOK FOR CASH. Does this mean you should shun Japan? Maybe not. For the most intrepid of investors, the Tokyo stock market offers a number of plays on companies that will probably come through the hard times in solid condition.

To find them, look for corporations with a technological edge, pricing power, and scads of cash. One such company is Kyocera Corp., whose shares also trade on the New York Stock Exchange via American depositary receipts. Kyocera is the world's largest manufacturer of ceramic packaging material that encases semiconductors. It also makes cellular-telephone handsets and owns 22% of DDI Corp., a fast-growing cell-phone carrier with a stock that is also on many buy lists. S. G. Warburg Securities Ltd. analyst Barry Dargan thinks Kyocera's profits will jump 19% in the curre
cal year. Other pro picks: Rohm
big maker of semiconductor compo
that is riding the global chip boom
Tokyo Electron Ltd., a thriving tr
group and maker of semiconductor
ufacturing equipment.

STOCK PICKS FOR TOUGH TIMES

Company/ Description	Price	Price-earnings ratio
TOYOTA $25 billion in the bank	$39*	56.9
KYOCERA Market leader in chip packaging	152*	39.4
NINTENDO "Virtual Boy" game out soon	60	12.8
SANKYO Hot new diabetes drug	23	21.9

*American depositary receipt

DATA: BUSINESS WEEK

Do video games appeal to you
William L. Wilby, manager of the
penheimer Global Fund, the nan
watch is Nintendo, one of his "fa
stocks in the world." Nintendo s
are down 80% from 1993, and the
pany has further annoyed investo
delaying the rollout of its Virtual
product line until after this Chris
But Wilby predicts an earnings
around in 1996 or 1997. Meanwhile
company is sitting on $3.65 billi
cash—40% of its market capitaliza

Nintendo isn't the only Japanese
pany rolling in dough despite t
times. Take Toyota Motor Corp. W
cash cushion of $25 billion, the au
ant probably could weather a 5
dollar before it feels real pain, says
man Brothers Inc. analyst Koji Endo.

THIN ICE. Another way to play the depressed market is to look for companies selling at steep discounts off Tokyo's Alice-in-Wonderland valuations. Merrill Research Director Hiroshi Nakagawa finds no shortage of good companies fetching a third of the average price-earnings ratio of 70. He recomm
Sankyo Co., Japan's No. 2 drug com
Its new antidiabetes medicine, N
could bring in $1 billion annually
its scheduled release later this
Nakagawa also likes Yamanouchi
maceutical Co., which is active in a
otics, cardiovascular drugs, and
agents.

But don't get carried away. Wit
Japanese financial sector on the r
banks and life insurers are selling s
at every turn—meaning that the m
could lurch lower at any momen
you're willing to shoulder the risk,
ever, Japan offers some opportur
When the economy eventually turn
corner, the white-knuckle ride may
been worth it after all.

By Brian Bremner in Tokyo,
Joan Warner in New York

ACTI

BARGAIN

With the y
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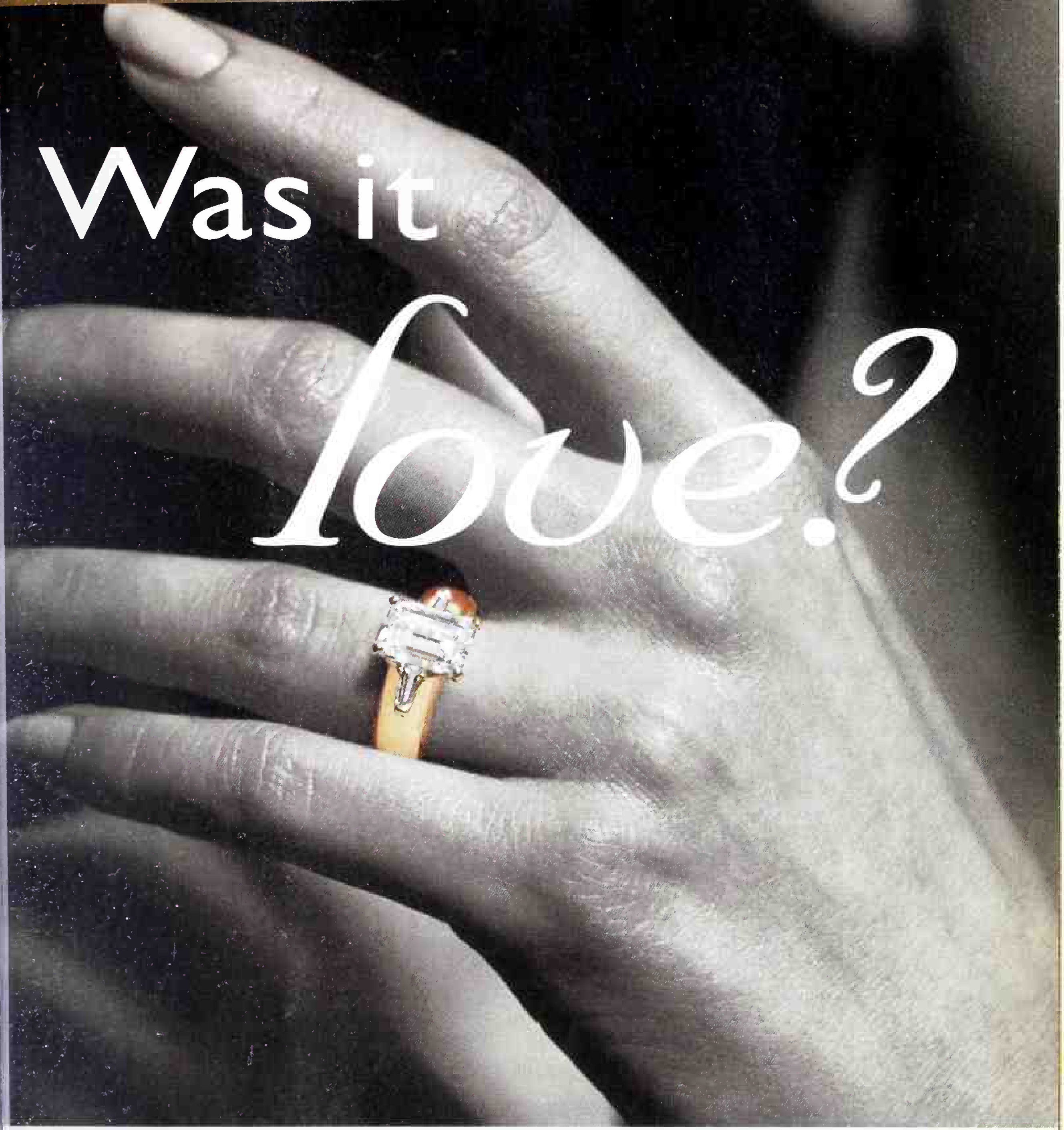

ourse, no one would make a decision like this
nything but love. But once you do
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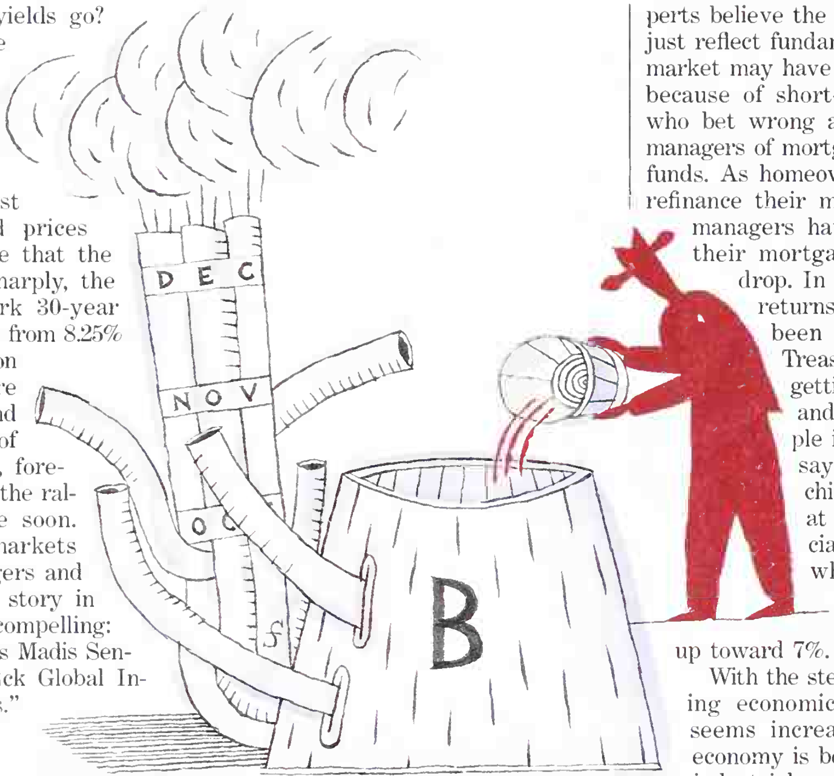
This Rally Still Has a Full Head of Steam

With bearish economic news and few signs of inflation, bond yields are likely to fall mo



How low can yields go? That is the burning question among bond investors, in light of the explosive rally in fixed-income markets since last November. With bond prices soaring on the evidence that the economy has slowed sharply, the yield on the benchmark 30-year Treasury has plummeted from 8.25% late last year to 6.5% on June 6. Bond yields are plunging abroad, too. And with the recent spate of bearish economic news, forecasters are betting that the rally won't end any time soon. While the European markets offer value, fund managers and economists believe the story in the U.S. is the most compelling: "Invest in America," says Madis Senner, manager of Van Eck Global Income Fund. "Buy bonds."

But more may be at work here than just the cyclical slowdown in the economy. Indeed, the current rally may reflect a fundamental change in economic expectations that could have a long-term impact on interest rates. For one thing, economists are becoming convinced that the Federal Reserve has finally tamed the inflation that wreaked havoc during the 1970s and 1980s. Moreover, the markets believe the Republican leadership in Congress will make good on its pledge to slash the deficit.

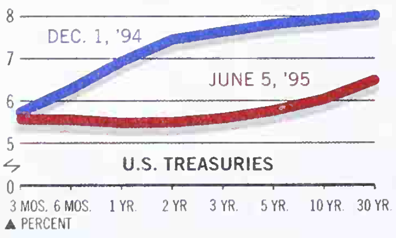
FAMILIAR REFRAIN. Economists are beginning to argue that bond yields could move back toward the historical range of the 1950s and 1960s—roughly 2.5 to 3.5 percentage points above the inflation rate. That compares with the 5- to 6-point premium investors demanded during the 1980s. With inflation expected to tick up slightly above 3% this year, Philip Braverman, chief economist for DKB Securities Corp., says the 30-year Treasury now has room to dip to around 6%. Other forecasters expect bigger drops over the long run: "Investors are going to see long bond yields drop below 5% over the next five years," says Tokai Bank Ltd.'s chief economist, Robert T. McGee.

Predictions of a 5% long bond sound hauntingly familiar to the refrain bond traders sang a mere 18 months ago before they were caught flat-footed by a series of Fed rate hikes. And some experts believe the current surge do
just reflect fundamentals. They say
market may have gotten ahead of i
because of short-covering by tra
who bet wrong and heavy buying
managers of mortgage-backed secur
funds. As homeowners have rushe
refinance their mortgages, these f
managers have seen the valu
their mortgage-backed secur
drop. In order to bolster t
returns, fund managers h
been buying long-t
Treasuries. "The mark
getting a little frothy
and forcing a lot of
ple in from the sideli
says Leslie J. Nanb
chief fixed-income of
at Massachusetts Fi
cial Services Co. T
why some econom
believe that b
yields could go
up toward 7%.

With the steady drumbeat of s
ing economic news, a correc
seems increasingly unlikely.
economy is beginning to shed j
industrial production is falling,
consumer confidence is slipping. Ind
the Fed could cut short-term rates
half-point, to 5.5%, as early as July.
would be all the bond market need
take off again. "I expect the pow
rally to continue," says Vernon R.
back, head of fixed income at Ban
Trust Global Investment Managem

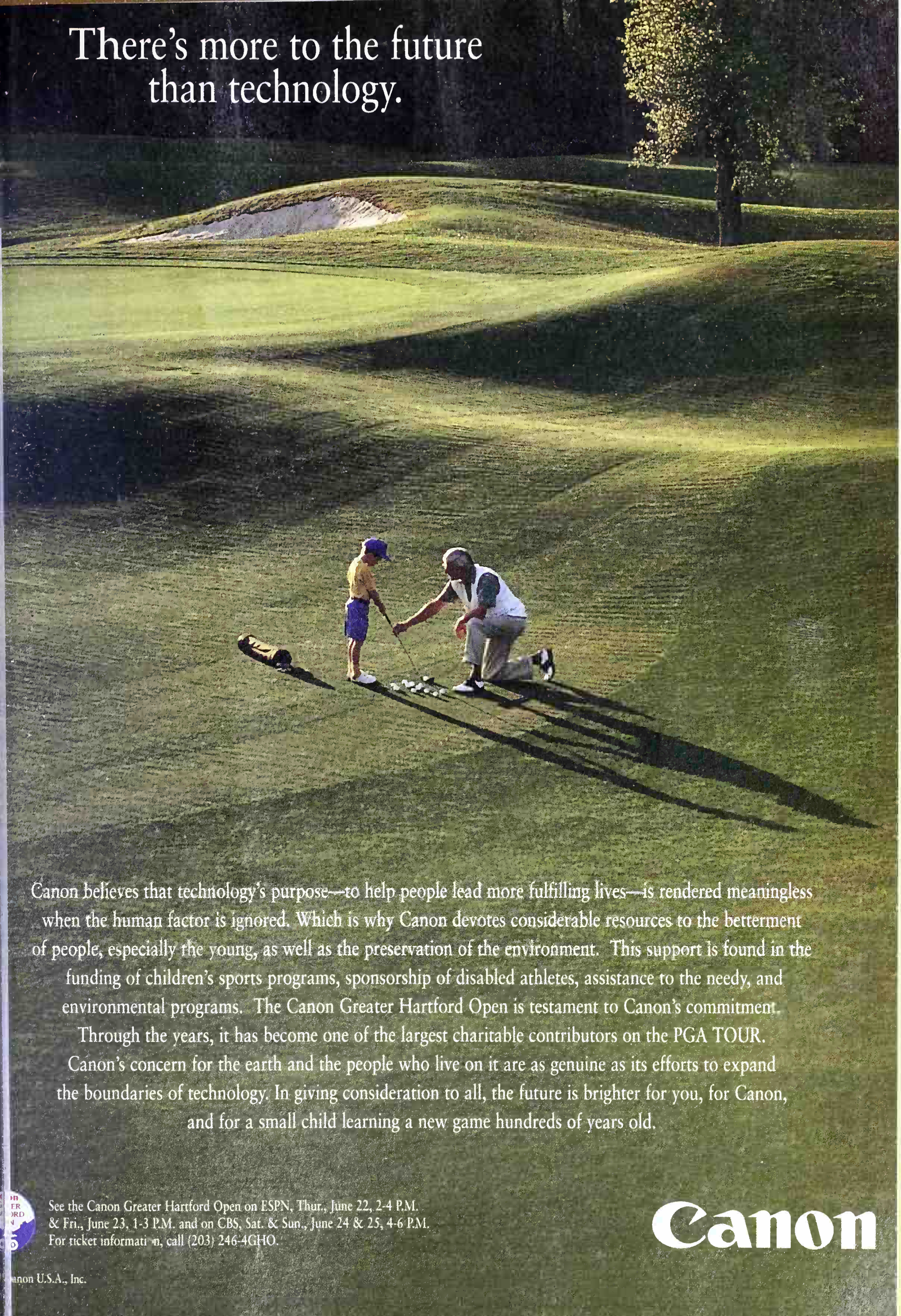
What does this mean for invest
With interest rates trending down
the long run, you would want to
Treasuries with long maturities—
30-year bonds. That gives you
biggest potential for capital gains.
example, if you bought a 30-year
on June 5 with a yield of 6.53%
rates fell immediately to 6%, the
of the bond would rise 10.5%—on
of the stream of interest paym
you'd receive. More conservative
vestors might consider buying 10
even 5-year bonds, which are less
tile. If rates do go back up, the ma
value of shorter-term bonds will

THE HUGE YIELD-CURVE SHIFT



DATA: BLOOMBERG FINANCIAL MARKETS

CHART BY ROB DOYLE/BW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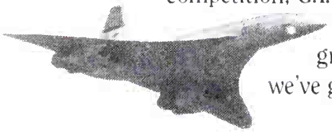

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less than the market value of 30-y
bonds. But with the flat yield cu
(chart, page 100), you'll earn aln
the same interest as you would by b
ing bonds with longer maturities.

Many pros are finding it harder t
cate compelling values among U. S.
porate bonds. They worry that co
rates no longer carry enough of a
premium for investors to spurn T
suries in favor of corporates. The spread between the two—historically 0.75 percentage points for a 10-year, corporate bond rated A and a 10-year Treasury—is currently 0.6 percentage points. If the old pattern returns, buyers of corporate bonds could get burned. "There's no advantage to owning single-A-or-better bonds," n
Daniel J. Fuss, head of fixed incom
Loomis, Sayles & Co. "The excess
come is so narrow that if spreads w
en, [the bonds] could provide lower
turns than Treasuries for a couple
years."

STRONG JUNK. The experts urge e
caution when buying junk debt. "If
think we're going into a recession, th
where the risk is greatest with dete
ation in credit quality," says Nanb
Still, investors who are willing to t
some risk can buy junk bonds, part
larly companies that may be upgrad
Fuss has been buying Digital Equ
ment Corp.'s debt issues, notably
8.625% notes maturing in 2023 and
7.75% paper due in 2023. DEC debt n
fetches a BB– rating from Standard
Poor's Ratings Group. But Fuss thi
DEC's success with its Alpha microp
cessor soon should allow the company
regain investment-grade status.

Kingman Penniman, who tracks
junk market for Duff & Phelps/MCM
vestment Research, favors Bal
Health & Tennis' 13% senior subo
nated notes maturing in 2003, yield
15.3%, and Showboat's 13% senior s
ordinated notes due in 2009, curren
yielding 12.4%.

But you may not have to go to s
risky extremes to make a good ret
in bonds this year. With the econo
slowing and inflation subdued, all si
suggest the market rally of 1995
has lots of life left to it.

By Dean Foust in Washington, w
Bill Javetski in Paris

ACTIC

"BUY BONI
If you belie
rates will d
you'll want
Treasuries v
the longest
maturity an
biggest pot
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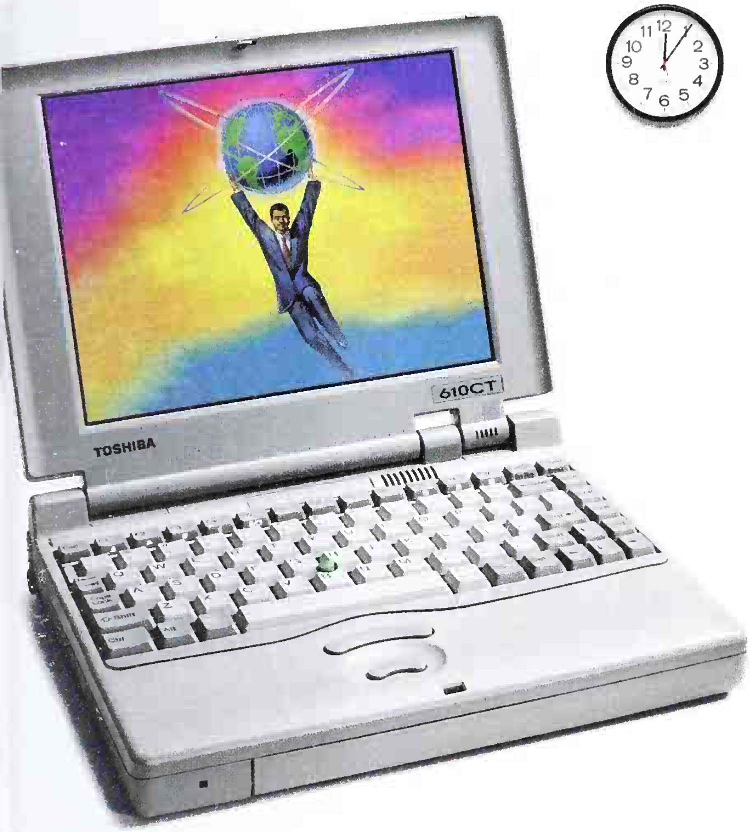
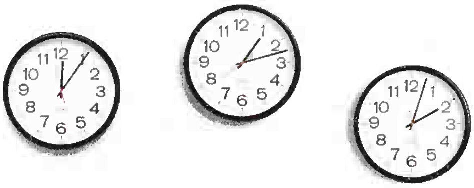
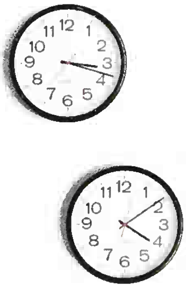
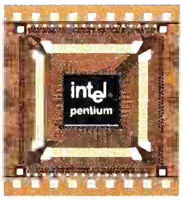
MINIMIZE MASS.
MAXIMIZE ACCELERATION.









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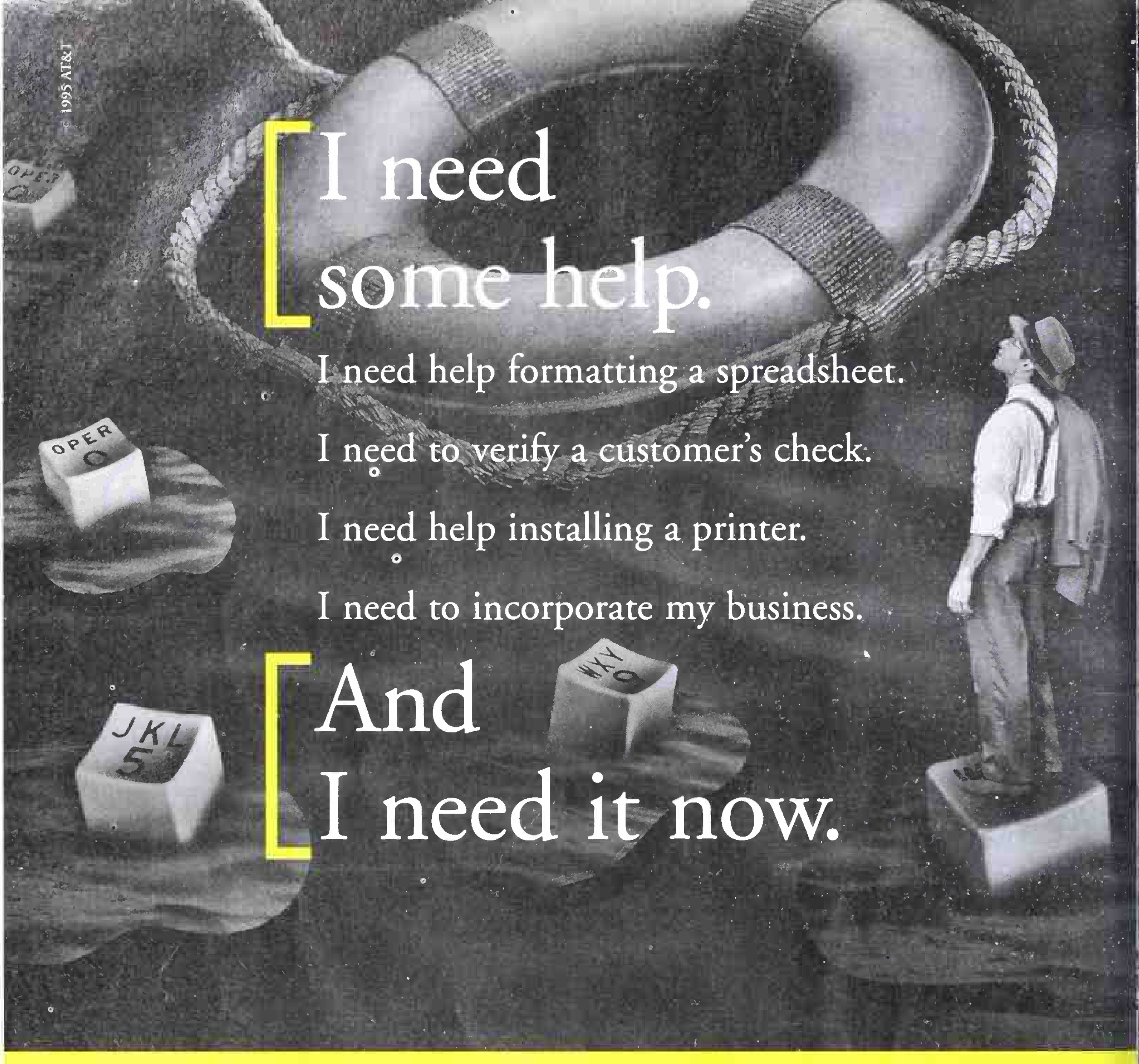
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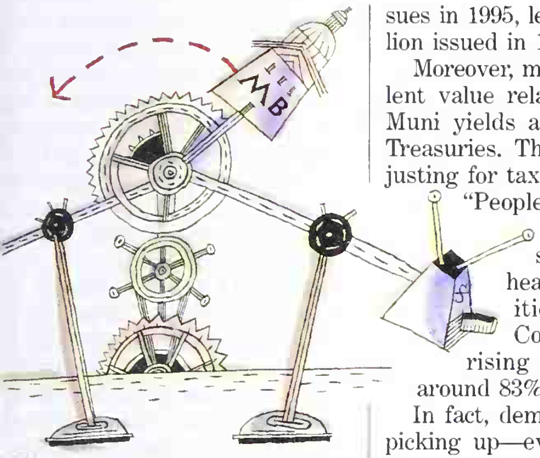
AT&T

Will Tax Reform Kill Munis' Allure?

laybe–but right now they're still a tasty investment



uni investors had reason to cheer at the beginning of 1995. There were widespread expectations that new muni ɡs would be few and far between, yers raced into the market antic- a scarcity that would drive up

things haven't worked out that ı Washington, there has been se- alk of tax reform, which would the key tax advantages of mu- ıy substantial change is not going ood for the value of an outstand- ɡ-term muni bond," warns James ıer, head of the tax-exempt bond ement division of Bank of New 'o. And in California, acrimoni- gotiations on restructuring the bankrupt Orange County have ɔall over that state's entire muni . Munis, while rising in price vith all bonds, have performed :han Treasuries.

IGHT SIDE. But there are still easons to consider First, predictions nuni issuance have true—in spades. underwriters all all Street are crying heir beer over the of new deals, and ɔod news for Main The Public Secur- sn. expects rough- billion in new issues in 1995, less than half the $292 billion issued in 1993.

Moreover, munis currently offer excellent value relative to Treasury bonds. Muni yields are now close to 86% of Treasuries. That means that after adjusting for taxes, munis yield far more.

"People will recognize the relative value in munis," says Richard J. Moynihan, head of the municipal-securities division at Dreyfus Corp. He sees muni prices rising so that yields fall to around 83% of Treasuries.

In fact, demand for munis is already picking up—even for California securities. One indication: Investors snapped up a $1.25 billion offering at the end of May by California's Foothills/Eastern Transportation Corridor Agency to finance new roads. "The oversubscription [for bonds] was extraordinary," says Paul C. Williams, head of investment strategies and research at John Nuveen & Co.

ACTION

HANG IN

Yields are high relative to Treasuries, so there's every reason to stick with munis

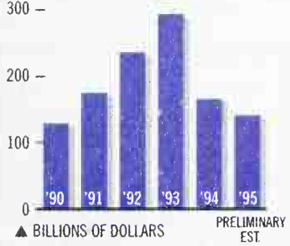
If the economy continues to slow, further declines in overall rates stand to help all muni buyers. Moynihan says investors could take extra advantage of falling rates by buying bonds trading at a premium. These bonds have coupons higher than those on new issues, so issuers might refund them if rates continue to fall. Such a move would boost the price of the high-coupon bonds.

With tax-reform proposals buffeting municipal bonds, the market is likely to remain unsettled throughout 1995. But at this time, the lures of munis are still greater than the pitfalls.

By Kelley Holland in New York

DRYING UP

NEW ISSUES OF MUNICIPAL BONDS



DATA: PUBLIC SECURITIES ASSN., SECURITIES DATA CO.

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Security Guard Clearance
900-555-9700 ($5 per call)

STAC Electronics
Premier Technical Support
900-555-STAC ($2.50 per min.)

Ricoh
Printer/Fax Product Support
900-555-RICOH ($10 per call)

AT&T Directory Assistance
900-555-1212
(75¢ for 2 long distance domestic listings; $1.99 for 1 International listing. Introductory prices.)

Borland
Paradox for Windows Software Support
900-555-1006
(First min. free/$2 each add'l min.)

A.M. Best Company
Insurance Company Ratings and News Products
900-555-BEST ($2.95 per call)

State of New York
Medicaid Provider Line
900-555-2525 (85¢ per min.)

Lotus Development Corporation
Customer Support & Service
900-55-LOTUS ($2.95 per min.)

State of Colorado
Incorporation Information
900-555-1717($1.50 per min.)

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Hang On: More Surprises On the Way

In the first half, funds missed much of the Dow's ascent. What's next?

The first half of 1995 has been full of surprises for mutual-fund investors. The Dow Jones industrial average rose faster and further than anyone anticipated, gaining nearly 17% as of June 6. The bond market stunned investors with a rip-roaring rally that sent the yield on the 30-year Treasury bond down to 6.5%, its lowest point in 15 months. Despite all of the record-breaking, the average equity fund return, at 10.2%, fell far short of the 17.3% total return of the Standard & Poor's 500-stock index. And in a quirk of financial fate, equity funds were outperformed by bond funds that focus on investments that were considered rather humdrum until recently—U. S. Treasury securities.

Much of the gain in equity mutual funds was generated by a narrow slice of stocks, mainly large-capitalization growth stocks and technology issues. Excitement in the volatile tech sector isn't unusual. But the sector still held surprises, as the cycle of demand in the semiconductor industry extended well past analysts' expectations. That persistent outperformance led to some of the year's biggest gains, such as the eye-popping 45.2% total return from the $750 million Fidelity Select Electronics Fund.

NEW FLOW. While individual tech funds produced the biggest total returns, funds that focus on financial stocks had the best average performance—a 20.3% total return. Financial institutions benefited from growth in lending, improved trading profits, and a boost in fee income and credit-card profits as a result of a higher prime rate.

Staying at home was another strategy that paid off for equity players. U. S. diversified equity funds returned 12.9% as of June 2, compared with 0.74% for funds that invest in foreign stocks. Steven Norwitz, spokesman for T. Rowe Price Investment Services Inc., says the biggest shift in fund flow at his firm thus far in 1995 has been out of international funds and into domestic funds. The worst returns showed up in funds targeting Latin America, Japan, India, and gold.

Bond funds did a dramatic about-face from 1994, when virtually every category of bond fund was in negative territory. But in 1995's first half, every category sported positive returns. Only two fund groups—short-term world income and government adjustable-rate mortgage—failed to generate a return of more than 8%. Government bond funds investing in Treasuries took the to with an 11.5% average return, bo by the powerful rally in the bond ket. But many government bond managers, having built up more c vative positions in short and inter ate maturities in the wake of last market rout, didn't participate in of the rally. World bond funds ca second, gaining 10.2%.

"RELATIVELY CHEAP." Indeed, it w cusing on the long term that pro some of the best returns. The $25 lion Benham Target Maturities which buys long-term zero-coupon Treasuries, was the best-perfor fund, up 33.6%. Going long also pa for fund manager Daniel J. Fuss manages the $134 million Loomis S Bond fund, as well as the $27 n Managers Bond fund, both strong formers. The Loomis Sayles fund

EQUITY FUNDS: THE STARS, THE DOGS, THE GIANTS

Tech funds were the stars of the first half, though funds investing in financial stocks fared well. But funds in foreign stocks were duds. And gold bugs got clobbered

WINNERS

Total Return*

FIDELITY SELECT ELECTRONICS	45.21%	ALLIANCE TECHNOLOGY A
SELIGMAN COMM. & INFO. A	33.41	WASATCH MID-CAP
PERKINS OPPORTUNITY	33.10	SIFE TRUST
FIDELITY SELECT AIR TRANSPORTATION	31.94	FIDELITY SELECT ENERGY SERVICE
ROBERTSON STEPHENS VALUE + GROWTH	30.35	FIDELITY SELECT REGIONAL BANKS
FIDELITY SELECT COMPUTERS	30.02	ROBERTSON STEPHENS CONTRARIAN
EXCEL MIDAS GOLD	29.52	RYDEX NOVA
SELIGMAN HENDERSON GLOB. TECH. A	27.47	RETIREMENT PLANNING FIN. VALUE A
JOHN HANCOCK NATL. AVIATION & TECH. A	27.07	FIDELITY SELECT TECHNOLOGY
FIDELITY SELECT HOME FINANCE	26.86	ENTERPRISE MANAGED
IDEX II AGGRESSIVE GROWTH A	26.65	ARROW EQUITY
GAM GLOBAL	26.61	GAM INTERNATIONAL
JOHN HANCOCK GLOBAL TECH. A	26.12	ALLIANCE PREMIER GROWTH B
BRUCE	25.93	JOHN HANCOCK REGIONAL BANK B
CLIPPER	25.93	FPA CAPITAL
FIDELITY SELECT FINANCIAL SERVICES	25.88	RYDEX OTC
RETIREMENT PLANNING GROWTH B	25.86	NEW YORK VENTURE A
ALGER CAPITAL APPRECIATION	25.27	MAS VALUE
QUEST FOR VALUE OPPORTUNITY A	25.25	MERRILL LYNCH GROWTH FOR INV. A
FIDELITY SELECT DEFENSE & AEROSPACE	25.22	AMERICAN CAPITAL EXCHANGE

*Appreciation plus reinvested dividends and capital gains through June 2

DAT

HOW EQUITY FUND GROUPS FARED

	Total Return*		Total Return*
SPECIALTY-FINANCIAL	20.29%	INCOME	10.50%
SPECIALTY-TECHNOLOGY	17.21	SPECIALTY-NATURAL RESOURCES	9.75
GROWTH & INCOME	14.72	SMALL-COMPANY	9.63
EQUITY-INCOME	13.35	SPECIALTY-MISCELLANEOUS	7.43
GROWTH	13.30	WORLD	5.99
BALANCED	12.19	PACIFIC	1.51
ASSET ALLOCATION	11.05	FOREIGN	0.74
SPECIALTY-HEALTH	10.99	SPECIALTY-PRECIOUS METALS	–0.31
MAXIMUM GROWTH	10.95	S&P 500 INDEX	17.26
EUROPE	10.56	U.S. DIVERSIFIED EQUITY	12.91
SPECIALTY-UTILITIES	10.51	ALL EQUITY FUNDS	10.25

*Appreciation plus reinvested dividends and capital gains through June 2

erage maturity of ears and is call- ted.

d funds also prof- y going overseas k for profits. The million SEI Inter- al Fixed-Income nd gained 20.5% e first half, thanks ng interest rates a falling dollar. of the fund's hold- e AAA-rated for- onds that benefit- eatly from the e of the dollar t German, Japa- nd other curren- ecently, the fund arted to shift out German market and into the of more peripheral European s such as Italy and Spain.

did the megafunds fare? All but e 25 largest equity funds saw digit gains. The $11.7 billion Van- Windsor fund led the pack with % return. Tech-heavy, $41.8 bil- delity Magellan came in second, ng 18.2%. But only 4 of the 25 funds managed to beat the S&P eturn.

first-half performance numbers many tech investors wondering er they should run for the exits. near term, many fund managers expect a bumpy ride. Paul H. Wick, who runs the second-best performing tech fund, Seligman Communications & Information A, has turned neutral on tech for the short term but is bullish for the second half. (Investors who want to jump into his fund will soon be out of luck: It will be closed to new investors as of July 15.) Barry Gordon, who runs the $85 million John Hancock Global Technology Fund, is another tech bull. "I still feel that technology stocks are relatively cheap," he says. "More products are using more semiconductor chips than ever before." Some of his favorite stocks: Integrated Devices, LSI Logic, and Applied Materials.

Some fund managers are playing it safe, though. Michael W. Powers, who runs the $356 million Columbia Balanced Fund, is underweighting the technology sector compared with the technology weighting of the S&P index. Along with other fund managers, he is moving into energy service and oil stocks. Powers sees the out-of-favor S&P Oil Group as "an unexploited area that won't get bailed out by rising prices but is focusing on cost-efficiency and getting rid of businesses that aren't doing well." Baker Hughes is his fund's largest holding; if he could only hold one oil stock for a long time, however, he'd pick Royal Dutch/Shell Group.

FOREIGN TEST. While technology stocks have some managers nervous, fund managers are still enthusiastic about financial stocks. Ronald C. Ognar, who runs the $330 Strong Growth Fund, has been buying up niche companies such as Green Tree Financial Corp., First USA, MGIC, and MBNA. "These companies are growing at 20%, and most of the public

LOSERS

	Total Return*		Total Return*
FUND-MEXICO	–34.00	MORGAN STANLEY INSTL. JAPANESE EQUITY	–12.21
RITAGE	–25.88	VAN ECK INTL. INVESTORS GOLD A	–11.64
ICUS JAPAN OTC COMM.	–24.20	RYDEX URSA	–11.46
IT LATIN AMERICAN EQUITY	–22.89	BULL & BEAR GOLD INVESTORS	–11.31
CES GOLD	–21.25	STEADMAN AMERICAN INDUSTRY	–11.22
LEY LATIN AMERICAN A	–20.91	CAPSTONE NIKKO JAPAN	–11.01
RATEGIC INVESTMENTS	–20.39	SCUDDER LATIN AMERICA	–10.43
IN AMERICAN VALUE	–20.00	T. ROWE PRICE JAPAN	–9.67
ERICA GROWTH A	–19.56	DFA JAPANESE SMALL COMPANY	–9.19
H LATIN AMERICA B	–19.48	BLANCHARD EMERG. MKTS. GRTH. & INC.	–9.17
I AMERICAN GROWTH	–19.15	UST MASTER EMERGING AMERICAS	–8.95
AMERICA	–19.14	MONITREND GOLD	–8.91
N AMERICA	–17.38	VANGUARD SPEC. GOLD & PREC. METALS	–8.88
	–17.16	FIDELITY JAPAN	–8.75
E LATIN AMERICA	–16.21	PIMCO ADV. INSTL. BLAIRLOGIE EMER. INST.	–8.47
AL GREATER INDIA	–16.14	PAINEWEBBER ATLAS GLOBAL GROWTH A	–7.90
GREATER INDIA	–16.06	MITCHELL HUTCH/KIDDER EMER. MKTS. EQ. A	–7.27
EAN TECH. & GROWTH	–14.10	KEYSTONE PRECIOUS METALS HOLDINGS	–7.22
PAN GROWTH A	–13.09	MORGAN STANLEY INSTL. EMER. MARKETS	–6.82
PITAL	–12.65	MORGAN GRENFELL INTL. SM. CAP EQUITY	–6.68

lus reinvested dividends and capital gains through June 2

DATA: MORNINGSTAR INC.

LARGEST

	Assets*	Total Return**	
	Billions	Yr-to-date	5-yr. avg.
FIDELITY MAGELLAN	$41.81	18.22%	14.74%
INVESTMENT COMPANY OF AMERICA	21.20	14.10	10.63
WASHINGTON MUTUAL INVESTORS	14.42	17.50	11.21
FIDELITY PURITAN	13.20	9.64	12.64
VANGUARD/WINDSOR	11.71	18.82	12.07
INCOME FUND OF AMERICA	11.51	14.41	11.72
VANGUARD INDEX 500	11.28	17.26	11.08
FIDELITY ASSET MANAGER	11.02	7.57	12.15
FIDELITY GROWTH & INCOME	10.84	13.60	14.71
JANUS	10.74	13.37	11.91
TWENTIETH CENTURY ULTRA INV.	10.58	12.03	19.82
FIDELITY CONTRAFUND	10.26	15.06	19.14
VANGUARD/WELLINGTON	9.90	16.70	11.09
FIDELITY EQUITY-INCOME II	9.39	12.02	NA
EUROPACIFIC GROWTH	9.05	5.30	10.38
VANGUARD/WINDSOR II	8.94	18.20	11.71
FIDELITY EQUITY-INCOME	8.31	14.31	12.81
DEAN WITTER DIV. GRTH. SECS	7.54	16.73	10.48
NEW PERSPECTIVE	7.50	10.93	11.31
PUTNAM FUND FOR GRTH. & INC. A	6.75	17.06	11.80

*As of June 2 **Includes dividends and capital gains hasn't even heard of them," he says.

Equity fund managers with a stomach for risk are venturing overseas, even into Latin America, where they believe the worst is over. The $565 million Robertson Stephens Contrarian Fund plans a slow move into emerging markets. For the long term, fund manager Paul H. Stephens likes Latin America, parts of Southeast Asia, and parts of Africa. Currently, however, many of his holdings are in Canada. His fund's 23.1% return is largely explained by a holding in Diamond Fields Resources Inc., a Canadian mining company whose stock has climbed from about 4 to 71¾ since the company's discovery of major nickel, copper, and cobalt deposits last year. An investment in Diamond Fields also propelled the $8.6 million Excel Midas Gold Shares Fund to a total return of 30%, while many of its peers suffered double-digit losses.

Gold bugs may be depressed, but bond traders are feeling totally flummoxed. Every week, market sentiment seems to shift with the latest economic statistics. There was some "good" news lately for bond investors: Signs of a rapidly slowing economy mean that the possibility of recession cannot be ruled out. That raises the prospect of an interest-rate cut by the Federal Reserve sometime in the year's second half—a boon for many bond funds.

"STAYING POWER." While unwilling to write off a continuing bond rally, many fund managers are taking defensive positions. Loomis Sayles's Fuss says the second half of 1995 will be a "tougher time." He is gradually building positions that aren't so closely tied to gyrations in the U.S. bond market, without giving up potential gains from a further rally in the U.S. He will probably buy more Canadian paper and recently sold some long zero-coupon bonds in Managers Bond and invested the money in 3.5-year BBB-rated paper. But "it's too soon to say that this is it and leave," he says. "This rally has staying power."

Will the laws of gravity hit the financial markets in 1995's second half? Fund managers argue that increased productivity will support continued strong earnings gains in many sectors of the economy, even if growth slows further. And if that happens, an upside for bonds could be in the cards. But only one thing seems clear in today's topsy-turvy financial markets: Investors are likely to experience even more surprises in 1995's second half.

By Suzanne Woolley in New York

HOW THE BOND FUNDS FARED IN THE FIRST HALF

BOND-FUND GROUPS

	Total Return*		Total Re
GOVERNMENT-TREASURY	11.54%	GOVERNMENT-GENERAL	9.
CORPORATE-GENERAL	10.43	CORPORATE-HIGH QUALITY	8.
WORLD	10.25	SHORT-TERM WORLD INCOME	2.
GOVERNMENT-MORTGAGE	9.74	GOVERNMENT-ADJ. RATE MTG.	2.
CONVERTIBLE	9.62	ALL TAX-FREE FIXED INCOME	10.
CORPORATE-HIGH YIELD	9.56	ALL TAXABLE FIXED-INCOME	9.

TAXABLE BOND FUNDS

THE BEST	Total Return*	THE WORST	Total Re
BENHAM TARGET MATURITIES 2020	33.62%	GOVETT DEVELOPING MARKETS BOND	–16
BENHAM TARGET MATURITIES 2015	29.78	ASTRA ADJUSTABLE RATE SECURITIES I-A	–15
BENHAM TARGET MATURITIES 2010	25.08	FIDELITY NEW MARKETS INCOME	–8
RYDEX U.S. GOVERNMENT BOND	22.77	FIDELITY ADVISOR EMERG. MARKETS INC. A	–
SMITH BARNEY INVESTMENT GRADE BOND B	22.10	ALLIANCE WORLD INCOME	–2
BENHAM TARGET MATURITIES 2005	21.21	ALLIANCE MULTI-MARKET STRATEGY B	–1
MONITOR MORTGAGE SECURITIES TRUST	20.91	ALLIANCE SHORT-TERM MULTI-MARKET B	–1
SEI INTERNATIONAL FIXED-INCOME A	20.52	ASTRA ADJUSTABLE U.S. GOVT. SECS I	–0
MANAGERS BOND	20.38	VAN KAMPEN MERRITT S/T GLOBAL INC. B	0
PIMCO LONG-TERM U.S. GOVT. INSTL.	19.81	MIDWEST STRATEGIC TREASURY TOT. RETN. A	
RUSHMORE U.S. GOVT. LONG-TERM	19.21	SCUDDER SHORT-TERM GLOBAL INCOME	2
LAZARD INTERNATIONAL FIXED INCOME	18.98	PERMANENT PORTFOLIO TREASURY BILL	2
STATE ST. RESEARCH INTL. FIXED INC. C	18.62	RSI RETIREMENT TRUST SHORT-TERM INV.	2
LOOMIS SAYLES BOND	18.47	INSTITUTIONAL ADJ. RATE GOVT. INSTL.	2
FIDELITY SPARTAN LONG-TERM GOVT.	18.25	MITCHELL HUTCH/KIDDER ADJ. RATE. GOVT. A	

TAX-FREE BOND FUNDS

THE BEST	Total Return*	THE WORST	Total Re
CALIFORNIA MUNI	28.05%	STRONG SHORT-TERM MUNICIPAL BOND	1.
SAFECO CA TAX-FREE INCOME	17.66	MANAGERS SHORT MUNICIPAL	2.
ALLIANCE MUNI INCOME INSURED CA A	16.86	CALVERT TAX-FREE RESERV LIMITED-TRM. A	2
ALLIANCE MUNI INCOME CA A	16.24	DUPREE KY TAX-FREE SHORT-TO-MEDIUM	2.
SMITH BARNEY CA MUNICIPALS A	15.96	MERRILL LYNCH MUNICIPAL LTD. MATURITY A	3
ALLIANCE MUNI INCOME INSURED NATL. A	15.92	FIRST AMERICAN LIMITED-TERM T/F INC C	3.
ALLIANCE MUNI INCOME II FL C	15.83	VANGUARD MUNICIPAL SHORT-TERM	3.
SMITH BARNEY MANAGED MUNICIPALS A	15.33	TWENTIETH CENT. TAX-EXMPT SHORT-TRM	3.
ALLIANCE MUNI INCOME NATIONAL A	15.15	BERNSTEIN SHORT DUR. NY MUNICIPAL	3.
VOYAGEUR FL INSURED TAX-FREE A	14.98	CDLORADD BONDSHARES	3.
ALLIANCE MUNI INCOME II PA B	14.95	BERNSTEIN SHORT DUR. CA MUNICIPAL	3.
SAFECO MUNICIPAL BOND	14.87	BERNSTEIN SHORT DURATION DIVR MUNI	3.
FRANKLIN AZ INSURED TAX-FREE INCOME	14.66	GOLDMAN SACHS SHORT DUR. TAX-FR. INSTL.	3
VOYAGEUR CA INSURED TAX-FREE A	14.62	PACIFICA SHORT-TERM CA TAX-FREE	3.
BLANCHARD FLEXIBLE TAX-FREE BOND	14.58	PACIFIC CAPITAL T/F SH-INTERM INSTL.	3.

*Appreciation plus reinvested dividends and capital gains through June 2

DATA: MORNINGS

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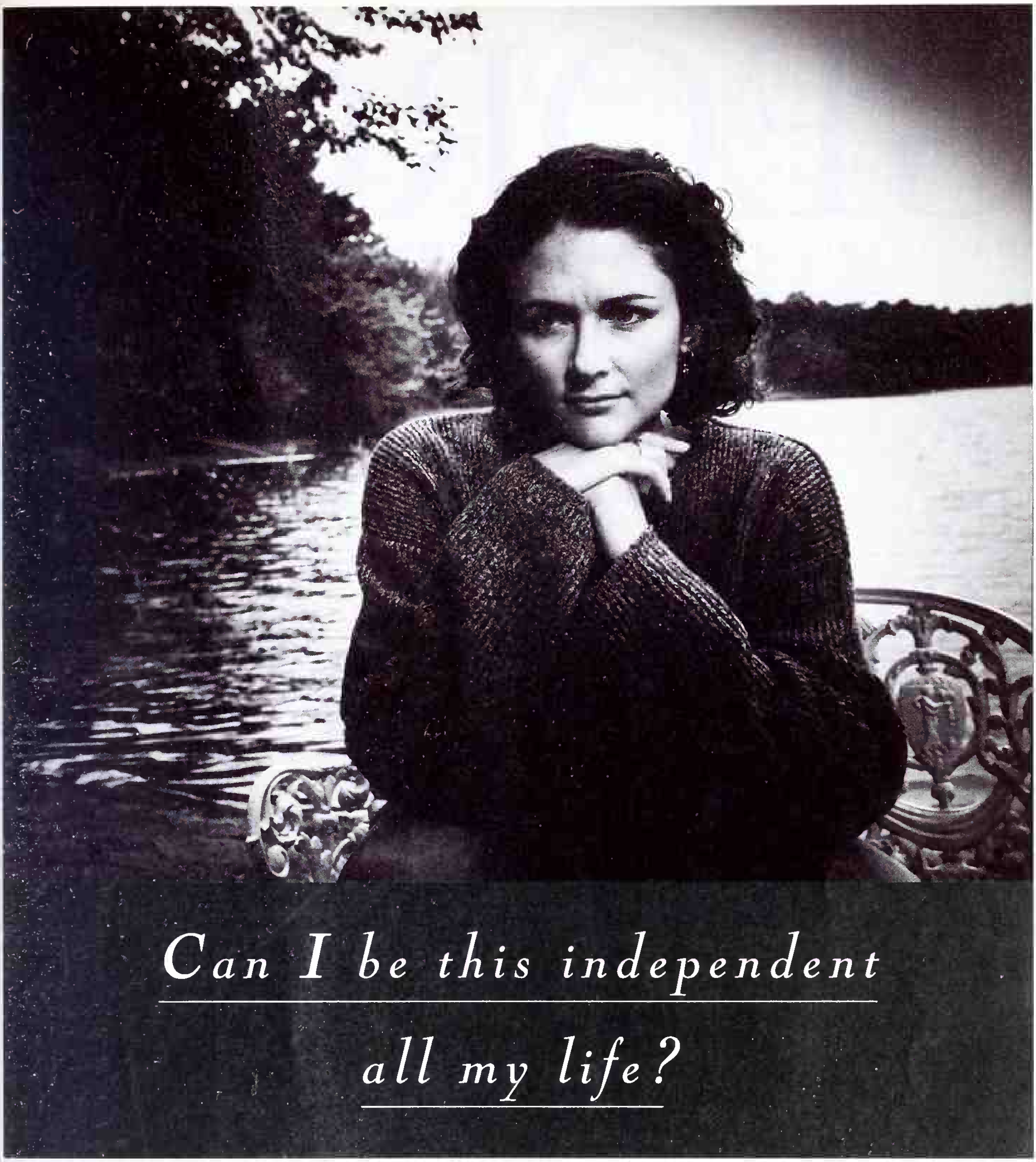
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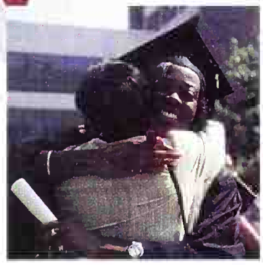


Top left: Georgia's future looks bright. *Bottom left:* Using technology and computers, a Georgia teacher works with young students. *Bottom right:* A college education is just one of the possibilities from the HOPE Scholarship program.

Innovating technology. Revolutionizing lives. Pioneering services. What do all of these have in common? They're investments being made today in Georgia's educational system. Education is the top priority for both Georgia's political and private leadership. Providing a quality education system and access to quality programs has never been more important because Georgia knows investments made today will affect the quality of our people's lives now and in the future.

Right now, Georgia is investing in the future by giving its people access to advanced education through the HOPE Scholarship Program. HOPE (Helping Outstanding Pupils Educationally) is a unique program for high school and college students rewarding hard work with financial assistance in degree, diploma, or certificate programs at any Georgia public or private college, university, or technical institute.

For example, if a Georgia student graduates from high school with a "B" average, he or she can qualify for free tuition and books at any public college. It's that simple. Scholarships can be renewed for your sophomore, junior and senior years if a "B" average is maintained. No other offers a scholarship program with the reach of H In Georgia, we believe the best way you can he student is by giving them hope, so we made it in scholarship. HOPE, it's a good thing.

Georgia is also at the forefront of the nation in use of advanced telecommunications to improve quality of education for its people. One prog made possible by this is Distance Learning, ano aspect of Georgia's investment in the educati system, and a way to revolutionize people's l Using a sophisticated telecommunications netw Georgia is able to link rural sch with urban schools and colle enabling students in remote area take classes that are not availabl their own schools.

Distance Learning puts a Geo teacher in dozens of classrooms at same time via the Georgia Statewide Academic and Me System (GSAMS). A variety of enrichment courses such physics, Russian, and abstract art can now be taken students no matter where they live in Georgia. At a re Distance Learning training session for educators, one tea was so impressed with the benefits of the technology be her, she was prompted to say it would allow her a real ch to make a difference for the future. The *New York Times* Georgia's Distance Learning "the most sophistica program of its kind in the nation." No other state invested as much in Distance Learning — that's Georgia's at the head of the class.

Investing in our greatest natural resource our people. Building an educated and qu work force for the future. Giving students H That's Georgia's goal for today, tomorrow and 21st century. Affecting ordinary people's live bringing a better quality of life to everyone li in the state is just what Georgia does best.

Wouldn't it be nice if the quality of life could outpace the cost of living?

Of course it would be nice. It would be nice, for example, if you could spend less time getting to work and less money doing it. If, say, when you left work, you could spend less than an hour getting from your parking deck to a state park.

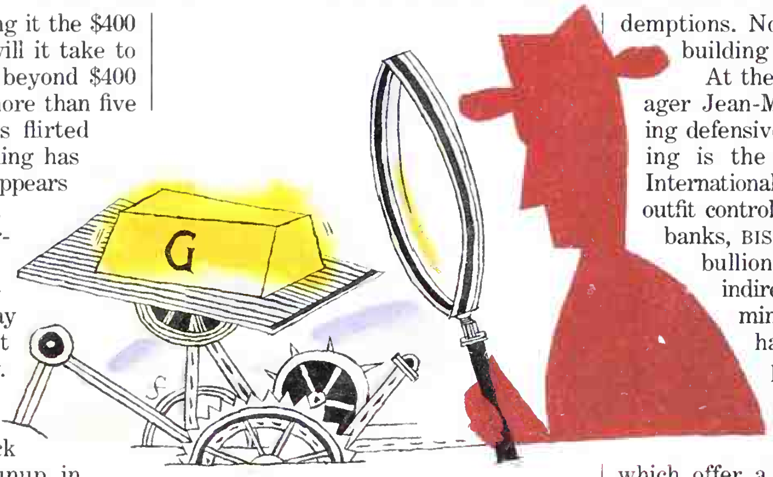
Well, that's the way things are in Georgia. It's a nice twist on the old "increased hassle, increased cost" trend that seems to be sweeping so much of the rest of the nation. Not only is the living easy here in Georgia, but the *cost* of living is below the national average. (Compare that to many cities, where costs can be as much as 30% *higher.*)

And of course, when living costs less, doing a thriving business costs less, too. It's our way of life, and we'd be happy to tell you more about it. To find out more, write Charles Gatlin at the Georgia Department of Industry, Trade and Tourism, Dept. BSW, P.O. Box 1776, Atlanta, Georgia 30301. Or call us at (404) 656-9306.

GEORGIA
on my mind

This Metal Has Precious Little Shine

With the price stuck in neutral, gold offers few opportunities—and plenty of risk



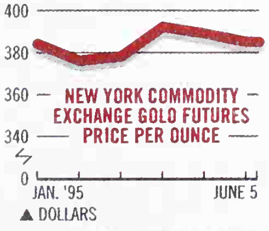
Gold bugs are calling it the $400 question: What will it take to push gold prices beyond $400 per ounce? For more than five years, whenever gold has flirted with that level, heavy selling has slapped it down again. It appears that's not about to change.

Barring some huge surprise—such as war, financial panic, or surging inflation—gold will probably stay within a narrow range just below $400, analysts say. Any rallies will serve as an excuse for producers to sell, driving prices back down. And without a runup in gold prices, most mining stocks will probably trail the broad market. Meantime, mutual funds that specialize in precious metals still haven't recovered from last year's 11.6% decline. Courageous investors seeking to diversify their portfolios might sense a buying opportunity, but these funds may not be worth the risk. "Staying away from them is probably the wisest course for most investors. They're too volatile," advises analyst Eileen S. Makoff, who tracks precious-metals funds at Morningstar Inc.

NO SIGN OF FEVER. With the Federal Reserve steadfast in controlling inflation, the U.S. economy slowing, and Japan facing deflation as the yen soars, economists doubt gold will get a lift anytime soon. Even currency-market turmoil has failed to buoy gold's price. This year's Mexican peso crisis hasn't driven worried investors into gold. Nor has the collapse of the dollar. In terms of yen and German marks, gold prices have plunged.

The only bright spot in the gold market: fundamentals. World gold-mine production dropped 0.6% in 1994, the first decline since 1975, and analysts expect mine supplies to edge up only slightly over the next few years.

GOLD IS GOING NOWHERE



DATA: BLOOMBERG FINANCIAL MARKETS

Even with the addition of scrap gold and sales from central bank stockpiles, the supplies won't keep up with an expected 4% annual rise in demand through 1997. Appetites are growing in China, India, and elsewhere in the developing world, where gold jewelry remains a standard for investment and adornment. Traders report strong buying from the Pacific Rim every time the gold price dips below $375. That demand will continue to limit bullion's downside risk, says Philip Klapwijk, senior analyst at Gold Fields Mineral Services Ltd. But since the demand erodes whenever the prices soar, even strong fundamentals are unlikely to support a speculative surge for very long.

So how can investors participate even with no sign of gold fever? A handful of mutual-fund managers have crafted defensive strategies. At the $125 million Scudder Gold Fund, manager Douglas D. Donald swears by bullion as a less volatile holding than mining stocks. "It has been a savior," he notes. Donald held 24% of the fund's assets in bullion at the end of last year's third quarter. When gold stocks tanked in the fourth, he sold thousands of ounces to meet redemptions. Now, Donald is slowl building his metal cache.

At the SoGen Gold Fund, ager Jean-Marie Eveillard is t ing defensively, too. His largest ing is the Swiss-based Banl International Settlements. A blu outfit controlled by the world's c banks, BIS has 50% of its ass bullion—and thus provid indirect gold play withou mining risk. Eveillard, has "no idea" when b prices may increase likes preferred s of Freeport-McM Copper & Gold which offer a coupon and redem value indexed to gold prices.

"IT'S INSURANCE." Such defensive egies offer too meager an upside, tends Henry J. Bingham, who ma Van Eck Associates' $600 million l national Investors Gold Fund, a h investor in South African stocks. gold funds tend to rise when s and bonds fall, investors se maximum diversification should buy aggressive funds, Bingham contends. "It's insurance," he adds.

Other metals mavens favor mining stocks for similar reasons. But even they recommend caution when panning for bargains among the dozens of small mining issues from Africa, Asia, South America Canada. Instead, they advise inve to stick with well-capitalized, eff producers.

Of the 46 gold funds that Mornin follows, all but four own Placer I Inc., and all but nine hold Ame Barrick Resources Corp. They ma have much pizzazz, but with gold in neutral, the tried-and-true path be the best to follow.

By Greg Burns in Ch

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◀ TOP TRADER
KMJ Capital's diversified commodities fund soared 90% under Kenneth Jakubzak

▼ SMOOTH SAILING
Thermolase, whose laser technology removes hair, is one of the hottest high-tech companies

CREAM OF THE CROP

The best investments of the year—so far

This has been a gala year in the stock and bond markets. Lower interest rates, abetted by an ever-softer dollar, have sent stock prices to record levels. The prosperity has been across the board. A few investments, however, have excelled. What follows is a perusal of the best investments of the year to date.

BEST NYSE STOCK

As its name implies, *Acme-Cleveland Corp.* is as Middle American as cherry pie. It is the epitome of no-frills Rust Belt stoicism. Acme makes metalworking equipment, telecommunications test devices, and other heavy-duty gizmos. But its share price has been the epitome of glitz, rising some 140% in the year so far and making Acme the best-performing issue on the Big Board that began the year at more than $5.

Acme is hardly a paragon of growth. Sales have been steadily declining for years. But the company has repositioned itself for growth, selling off its arcane twist-drill subsidiary in recent months and beginning to make acquisitions in the hot telecommunications business.

BEST AMEX STOCK

High-technology stocks have been wowing investors for most of this year. And one of the most explosive niches in the high-tech arena has captured the imagination of appearance-conscious individuals in the U.S.: hair removal. Tweezers? Forget about it. *Thermolase*, a fortunate company with a big stake in this technology, zaps those little suckers with a laser—and Wall Street is suitably impressed. The San Diego company's shares have almost quadrupled, climbing 280% in the year to date.

Thermolase shares got a boost when the Food & Drug Administration O.K.'d its hair-removal system. It's a small company—the last quarter showed sales of $6.1 million—but watch out. There are lots of unwanted follicles out there.

BEST OTC STOCK

Zygo Corp. is based in Middlefield, Conn., a farming community known for its apple orchards. But there's nothing pastoral about Zygo, which sells equipment to semiconductor and disk-drive manufacturers and to optical compa
Propelled by the explosive grow
semiconductors, Zygo's shares
climbed 275%, making it the best
forming over-the-counter stock tha
gan the year at $5 or over.

BEST STOCK GROUP

It's *déjà vu* time, apparently. *Sem*
ductor manufacturers were the top
forming stock group at this time
year, and so it is this year. Semicond
stocks climbed 47% in the year to
Demand from overseas, fueled by
weak dollar, has propelled shares of
conductor makers, particularly
Corp. The Semiconductor Industry
expects global demand for comp
chips to climb 40% in 1995—more
twice the rate predicted last Septe

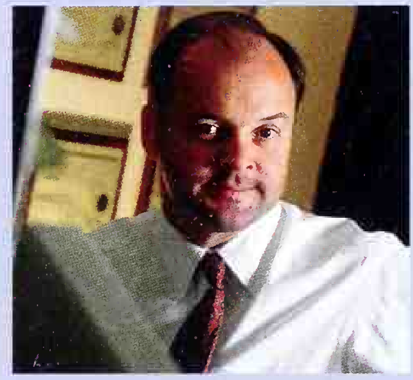
BEST STOCK FUND MANAGE

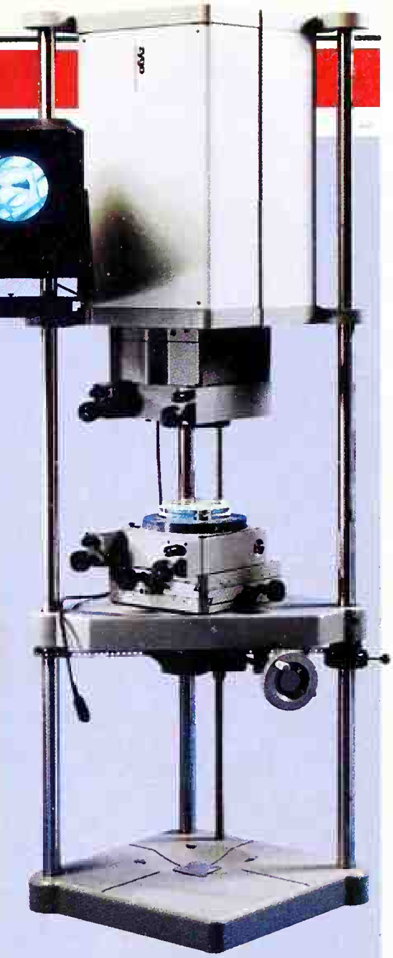
With computer-chip stocks climbi
dramatically over the past few mo
it's not surprising that mutual f
that invest in such stocks would
in the wealth. The best-performing
fund of the year to date was th

LEFT PHOTOGRAPH BY MICHAEL L. ABRAMSON

◀ DEJA VU
Chipmakers were the No. 1 stock group—again—largely thanks to overseas demand

▼ ON TARGET
With interest rates low, David Schroeder's Benham Target Maturity 2020 bond fund shone





◀ TALKING TURKEY
Inflation is under control, the economy is improving—and the Istanbul market is afire

▲ OTC OOMPH
High-tech measurement devices helped push Zygo's over-the-counter stock up 275%

(COUNTERCLOCKWISE FROM UPPER LEFT) PHOTOGRAPHS BY STEVE DUNWELL/THE IMAGE BANK, ABC AJANSI/GAMMA-LIAISON, ROBERT HOLMGREN

Select Electronics Portfolio, up the year to date. Under portfolio er *Marc Kaufman*, the fund in- heavily in semiconductor manu- ers, particularly Intel.

fman is a shy sort who would not t to an interview. But he did re- to written questions. Kaufman ie looks "mainly for companies enefit from either a new-product r favorable industry trends." And chip stocks are "likely to be vola- er the near term, it is my belief atient investors will be handsome- arded." Impatient investors, too, if st is any guide.

ST BOND FUND MANAGER

ty must be on the rise among nanagers this year. *David W. der*, who runs the top-perform- nham Target Maturity Fund 2020 lio, cheerfully consented to an ew. But he credited market forc- the fund's top-drawer perfor- —up 33.6% so far this year. "It's at the top of the [fund perfor- table or the bottom of the table," the 39-year-old Schroeder frankly observed. So far this year, declining rates have sent the fund to the top. As of last October, he notes, its performance was among the worst.

Target 2020's gyrations—it is among the most volatile fixed-income funds—stem from its portfolio of zero-coupon U.S. Treasuries. When rates shift, prices of zeros tend to move more rapidly than coupon-bearing bonds. The Benham zero funds should continue to do well if bonds keep sliding—but they'll be scraping the barrel-bottom if rates rise.

BEST OVERSEAS MARKET

The hottest market anywhere can be found in the ancient city by the Bosporus. The volatile *Istanbul Stock Exchange* has zoomed 58%, in dollar terms, in the year to date—78% in Turkish currency. A package of spending cuts imposed by Prime Minister Tansu Çiller last May, at the height of a Mexican-style financial meltdown, has begun to reap dividends. Inflation is down to double digits after hitting a numbing 156% early this year, while the economy is expected to expand by 4% in 1995, after a 6% plunge in 1994.

BEST COMMODITY FUND MANAGER

Of all the commodity funds tracked by Barclay Research Group that started the year with over $5 million, none has performed as well in the year so far as Chicago-based KMJ Capital Management Inc. Portfolio Manager *Kenneth M. Jakubzak* boasts a 90% return through Apr. 30 in KMJ's diversified fund.

Jakubzak benefited, as did bond funds, from the decline in U.S. interest rates. But Jakubzak extracted considerably greater returns using leverage, which effectively boosted the fund's $8 million in assets fourfold. Jakubzak is no in-and-out trader. He holds his positions for anywhere from a week to three months. "I'm a systematic technical trader with a heavy discretionary overlay," says Jakubzak. Translation: He follows the charts, but not like a moth to a flame. A principle we all can employ.

By Gary Weiss in New York, with John Rossant in Rome

BY GENE G. MARCIAL

Buyout Bait: PCs, Drugs, Banks...

Mergers and takeovers. Investors have seen lots of them so far this year, and there are more to come. That's what the pros who forecast—and bagged—earlier deals are saying. They think the big fields will be technology, pharmaceuticals, and banking. Case in point: IBM's hostile $3.3 billion offer for Lotus Development.

Mike Metz, chief investment strategist at Oppenheimer, who predicted at the start of the year that acquisitions would become "more frenzied and bigger," says: "To a lot of companies, the pressure is still on to widen distribution networks and bolster research and development of new products."

MIDYEAR TAKEOVER BETS

STOCK	52-WEEK HIGH	52-WEEK LOW	RECENT PRICE	TAKEOVER VALUE
APPLE COMPUTER	48	24⅝	43	60
ALZA	26⅝	17	21	30
FIRST CHICAGO	59¾	42⅝	58	80
HEALTHY PLANET PRODUCTS	10¾	7⅞	9	18
MICROTEL FRANCHISE	6⅞	2¼	6½	13
UPJOHN	38⅛	28⅝	37	50

DATA: OPPENHEIMER & CO., *SPECIAL SITUATION REPORT*, BW

Seasoned buyout spotters spy four that are ripe for picking: Apple Computer (AAPL), Alza (AZA), Upjohn (UPJ), and First Chicago (FNB).

Who's out to snare Apple? Several names are being bandied about, but the "most recent—and most logical—is Sony," says Metz. He argues that the Japanese giant could put its marketing and R&D to great use for Apple. "With its deep pockets and global vision, Sony can wed its entertainment values to Apple's technology to create novel interactive computer products," says Metz. Apple, for its part, needs an alliance with the likes of Sony to stay with the pack in computers, notes Metz.

Alza, a leader in controlled-release drug-delivery systems, is rumored to be a target of Pfizer, with which it developed Procardia XL for angina and hypertension. A European pharmaceutical giant is also rumored to be keen on acquiring Alza. Alza has research and marketing agreements with Marion Merrell Dow—which has agreed to be acquired by Hoechst, Germany's chemical and drug titan—as well as with Glaxo Holdings and Johnson & Johnson.

Upjohn is another drugmaker seen as "compelling takeover bait" for foreigners. Talk is that the stock is trading close to its high this year because some hedge-fund managers have put it on their new list of takeover targets.

First Chicago's stock has also bumped a new ceiling lately, thanks in part to buyout talk. Potential bidders include NationsBank, which analysts say is in a "good position to pay up" for First Chicago in a quest for broader markets, and Wells Fargo, said to be interested in the Midwest market. With its stock trading at a nice premium to many of its peers, the California bank could do a combined stock-cash merger, says Metz.

...Greeting Cards, Motels...

Takeovers could prove at least as lucrative to investors in small-capitalization stocks. "There are legitimate candidates with rapidly rising earnings and revenues that have been virtually ignored by the market so far this year," says Charles LaLoggia, editor of *Special Situation Report* in Rochester, N. Y. His picks: greeting-card maker Healthy Planet Products (HPP) and hotel operator Microtel Franchise & Development (MCTL).

Healthy Planet, the largest cause-related greeting-card company—endorsed by the Sierra Club and the ASPCA, among others—has been growing rapidly. With earnings jumping to 10¢ a share in the first quarter—up from 2¢ last year—and with sales rising 38%, to $885,833, the company is an attractive target for the large outfits such as Hallmark and American Greetings, says LaLoggia. The stock will soon be in play, he says, because one of the big stakeholders, which he declined to identify, wants to sell. The estate of Ludwig Jesselson, onetime chairman of Phibro-Salomon, owns 23.2%, and the family of Charles Bluhdorn, who founded Gulf & Western Industries, owns 15%.

Microtel Franchise, a fast-growing chain of low-priced, no-frills motels, is an ideal target for bigger chains, says LaLoggia. One possible buyer is Hospitality Franchise Systems, which franchises six lodging names, including 1,570 Days Hotels, 765 Ramada Inns, and 615 ward Johnsons. "Such large comp are always looking to buy new b names," says LaLoggia.

...And Casinos on the River

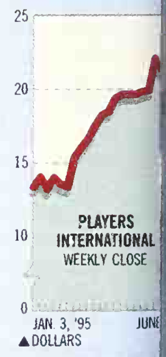
Many gaming stocks have bee a losing streak, even as stock market rockets to highs. An exception is Players Inte tional (PLAY), operator of two river casinos: in Metropolis, Ill., and L Charles, La. Players' shares have n ly doubled—from 11 in mid-Decen to 22 on June 6 (adjusted for a spl

What's the deal? Bulls on Players its growth prospects, healthy bal sheet, strong earnings, and robust flow, which have enabled the compa finance its own expansion.

One more boost: Players is being balled, say some pros, by a coupl major entertainment-and-gaming panies. Players' "strong cash flow a nancial condition makes it an attra acquisition target," says Joseph cimiglio, an analyst at Dean Wi Reynolds. He figures a fair take price is 31-32.

One takeover pro believes tha investor group led by entertainer M Griffin, which already owns 16% of ers, is a potential suitor. Another one: Promus Cos., which has form joint venture with Players on a $200 million casino complex in Maryland Heights, Mo., on the Missouri River west of St. Louis.

COMING UP TRUMPS



DATA: BLOOMBERG FINANCIAL MA

Even without the takeover element, Players is deemed to be way undervalued. David Anders of Raymond James & Associates says the stock is "extremely attractive." He sees Players making $1. share this year and $2 in 1996. R nues, which totaled $223.6 million year, should hit $283 million in 1995 $402 million next year.

Players' future is pegged on the pany's addition of a land-based ca in Mesquite, Nev., by July, and more riverboats.

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APPAREL

KIDS' WEAR IS NOT CHILD'S PLAY

Neither is grown-up gear, as OshKosh discovered

BIB LIB: *The baby boom turned an early standby into a bonanza*

Back in the 1980s, every well-dressed yuppie baby wore tiny work clothes from OshKosh B'Gosh Inc. At Hansen's Childrens Shop in posh Lake Forest, Ill., moms snapped up the trademark bib overalls and matching embroidered tops despite prices that hit $60 per outfit. These days, however, store owner Fran Hansen's orders come to less than $500 a season, down from $5,000 in the brand's heyday. "For the newer mother, OshKosh doesn't have the same appeal," she says. "They're going to The Gap."

That isn't news to OshKosh CEO Douglas W. Hyde, who admits the Wisconsin company was "slow to react to consumer changes." Profits plunged from $29.5 million in 1990 to only $7 million last year. Analysts expect a rebound this year, but earnings will still be well below the level reached five years ago.

60-INCH WAISTLAND. What went wrong? First, department stores—OshKosh's biggest distribution channel—cut back on children's clothes in the face of competition from Gap Kids, Kids 'R' Us, Lands' End, and others. Then, discounters started imitating OshKosh styles at far lower prices. Says Carolyn Smith, a Columbia (Md.) mother of 10: "You can get good-quality children's clothing at Kmart for $5 and sometimes even less. It was senseless to me to put money into OshKosh."

OshKosh wasn't always so dependent on toddlers. The 100-year-old company got its start making work clothes—in waist sizes up to 60 inches. Children's wear comprised only 5% of sales in 1974. Then came the "echo boom" of the 1980s, and the baby bib took off. Children's sales grew more than eightfold, to $340 million, by 1990, up from $40 million a decade earlier. "This brand just became magic. Our biggest problem was keeping up with demand," says Michael G. Donabauer, director of corporate marketing and planning.

But that magic had a downside. The children's line came to so define OshKosh's image that the company couldn't sell clothes to anyone else. A line of older kids' clothes flopped because 8-year-olds didn't want to wear baby clothes. Attempts to extend the
Kosh name to women's casual c
and maternity wear also failed.
Roebuck & Co. started a line of
Kosh men's casual clothes under l
in 1989 but abandoned it three
later. Even the company's original
wear was in danger of extinctio
spite gains, it still only represents
OshKosh's sales.

But OshKosh is fighting back.
tened and wiser, the company no
cepts that it's in the children's
business. Instead of trying to m
comeback in clothes for grow
managers are st
close to the pla
They're expandi
kids' shoe busines
have licensing a
ments for children'
wear and stuffed
mals. And Baby B
for infants, was
two years ago.

OshKosh is also
ing to reduce its d
dence on depart
stores. It now h
outlet stores car
first-quality, in-s
merchandise and is expanding its r
ly launched catalog. But it still
figured out a way to tap the gr
discount-store market, which has
tured an estimated 45% of unit sa
children's clothes. OshKosh can't s
premium brand there without alie
its longtime department- and spec
store retailers. After it began selli
Sears and J.C. Penney in the
1990s, OshKosh lost R.H. Macy's
ness for a year, and Dillard Depar
Stores still isn't ordering.

Rival Healthtex Inc. solved the
lem by creating a second line fo
counters. "With kids'-wear brands
have to differentiate channels,"
President Gary F. Simmons. Osh
says it has considered similar mo

Recent news at OshKosh has
more upbeat. New managers
juiced up fashion appeal. Moving
production to the
East has cut $2.
the $10 wholesale
of a bib overall. De
ment stores in the
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OshKosh sales gai
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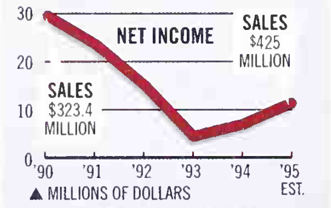
By Susan Cha
in Oshkosh, Wis.



OSHKOSH: A TOUGH TIME OVERALL

DATA: COMPANY REPORTS, CLEARY GULL REILAND & McDEVITT INC.

TOP: PHOTOGRAPH BY RACHEL COBB. CHART BY ALBERTO MENA/BW

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COMMUNITY SERVICE

A SOCIAL PROGRAM CEOs WANT TO SAVE

AmeriCorps has the passionate support of even GOP execs

TUTORING IN NEWTLAND: *Atlanta's Home Depot is giving $125,000*

ANN STATES/SABA

It's not like Erie Chapman to defend a federal do-gooder program. After all, he's a CEO, a loyal Republican, and a fund-raiser for House Budget Committee Chairman John Kasich (R-Ohio), leader of the GOP budget-cutting effort. Yet the head of Columbus-based U.S. Health Corp. says Kasich is wrong to target President Clinton's national service program, AmeriCorps, for extinction.

U.S. Health has pledged $150,000 over three years to City Year, a nonprofit that sends AmeriCorps members to work at community projects in Columbus and five other cities nationwide. Chapman argues that AmeriCorps will recoup more than its $376 million cost this year by giving youths skills to become productive adults. He has even protested the planned cuts at a Washington press conference and congressional hearing. "It's tragic to cut these programs," he says. "Why shoot a bunch of innocent kids just to get at the President?"

CALLS AND LETTERS. Chapman has plenty of company among execs lobbying their Republican pols to save Clinton's pet program. Since AmeriCorps' creation by Congress in 1993, corporations have ponied up cash, equipment, and employee volunteers to help 20,000 young adults aged 18 to 25 perform services that range from rehabbing low-income housing to cleaning up rivers. A list of donors reads like a who's who of Corporate America: BellSouth, Microsoft, NationsBank, Procter & Gamble, and American Express—to name a few.

It's no accident that execs find the project appealing. Unlike most bureaucratic social programs, AmeriCorps tries to operate like a business. It's run by a nonprofit company—the Corporation for National Service—rather than a federal agency. Moreover, the process of choosing the 350 service programs that are assigned to AmeriCorps participants is competitive. Thousands of local groups submit proposals—with goals and crete ways to measure success- state boards pick the winners.

Besides, business is already inti ly involved in the program. By law government sources—usually busin —must pay at least 25% of opera costs and 15% of the $7,200 stipend AmeriCorps member gets for a ye service. Participants also get a $ education grant at the end of se Says Eli J. Segal, the former exec heads AmeriCorps: "This translate the kind of business buy-in that federal programs not had."

MORE BANG. CEOs ticularly like the AmeriCorps' poc full-time, commu service workers a them to leverage own charitable ef Timberland Co., fo ample, says Ameri participation was k its five-year pled $5 million in cash equipment to City whose youths na wide are dresse Timberland outfits the program gets ger, our invest goes further," exp Ken Freitas, vice- dent for community enterprise.

To save AmeriCorps from the budget scalpel, corporate chiefs ing from Shell Oil's Philip J. Carr Anheuser-Busch's August A. Busc have written letters to Capitol Hill makers. Tenneco Gas's Steve Ches not only sent letters to his two Re lican senators—Texans Phil Gramm Kay Bailey Hutchison—but lobbied er Houston CEOs to kick in mone the local AmeriCorps program. didn't say that we liked big govern or that govern should take care of through handouts, says. "We have that this is produ and proven."

Home Depot Bernard Marcus written to two d lawmakers, inclu House Speaker N Gingrich, who re sents a district in company's home of Georgia. One Home Depot's fav programs is Hand

AMERICORPS' CORPORATE FRIENDS

Corporate America has been a big backer of programs using AmeriCorps members. Among the supporters:

GENERAL ELECTRIC Contributed $250,000 to 11 United Way chapters for projects, including literacy training and food pantries.

TENNECO GAS Has given $35,000, plus printing and accounting services, to Serve Houston Youth Corps, an AmeriCorps affiliate.

NIKE Promised $150,000 for programs in six cities to set up fitness-oriented projects, such as sports leagues and renovating playgrounds.

FANNIE MAE Gave $100,000 to three housing groups to train AmeriCorps members to counsel low-income renters on homeownership.

DATA: AMERICORPS

ı, a clearinghouse for volunteers. mpany had already given $10,000 to the group, but with Ameri- involvement, Home Depot has ed its support by $125,000 over ears. Now, 65 AmeriCorps mem- e aides in three urban schools— ram not possible with the non- roup's part-time volunteers. Why e Depot so interested? "We need to hire," says Suzanne Apple, di- of community affairs. "This pro- vill help build self-sufficiency, self- , and the leaders of tomorrow."

of those future leaders may be -old Paul P. Promadhat, a com- aide in a Harlem elementary As part of his AmeriCorps- training, he works at Project ı program designed by IBM and ıprofit Public Education Fund k. Big Blue gives $100,000 in ers and cash and provides retir- train aides. When his Ameri- stint ends in July, Promadhat he school system will hire him e as a computer troubleshooter. ;ave me an opportunity to do ng I believe in," he says.

R BLOOD? So far, such testimoni- en't moved Republicans, who nt on destroying the Clinton pro- here may be more than money at Killing AmeriCorps would yield % of the more than $1 trillion gs the GOP needs to balance the by 2002, but it would be a big he President. Budget Chairman lenies that the GOP attacks are Clinton. "It's a matter of policy, ics," he says. "The AmeriCorps ı is expensive, inefficient, and y with bureaucracy."

iCorps' opponents argue that eople should volunteer for com- service without getting stipends the program's per-member cost efficient $30,000. "When we're basic welfare to the poor, Medi- d Head Start, you can't sustain ment for funding AmeriCorps," ın P. Walters, president of the tizenship Project, a conserva- cy group.

iCorps officials say the program ɔser to $18,000 per member— 3,000 youths are expected to t next year at a federal cost of lion. And a new study by pro- ıt the universities of Michigan ı finds that each dollar spent on ram reaps $2.60 in reduced wel- s, increased earnings, and other With returns like that, many n't ready to throw in the towel. nay yet be one do-gooder pro- Republicans spare.

ısan B. Garland in Washing- Mary Beth Regan

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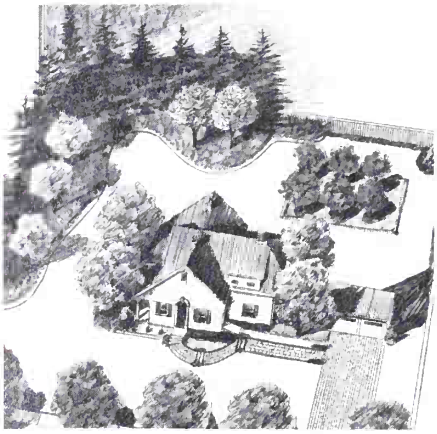

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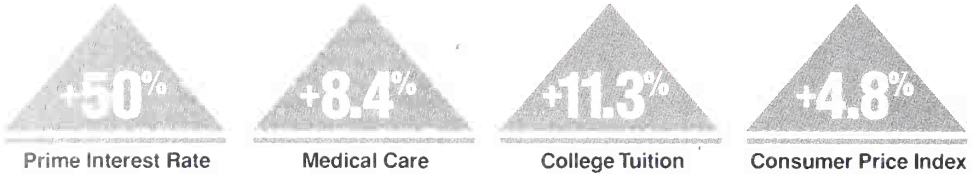

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IPS IN THE NUCLEAR AFETY NET?

usading engineer sees a dangerous flaw in plant testing

ow safe is your local nuclear power plant? Constantly assaulted by radiation and temperature variations, nuke plants' steam tubes evelop dangerous cracks. To find before they grow, engineers apply ic currents to the metal and read esults on an oscilloscope. The Nu- Regulatory Commission is highly lent of these tests—so much so operators who produce good test s can seek licenses to run their s for two decades past their origi- intended 40-year life spans.

t now, this so-called nondestruc- valuation is under fire. Terry Old- a 55-year-old veteran of the nucle- dustry, argues that the statistical of verifying nondestructive evalu- is fundamentally flawed. The re- he says, is that there is no way of ing whether nondestructive evalu- as currently practiced is reliable or Says Oldberg: "They've got an in- nent; they can't tell how good it doesn't produce information."

H CALL. If Oldberg is right, the ications are enormous. If nonde- tive evaluation underestimates the ge in a nuclear plant, a catastroph- lure could occur unexpectedly. On ther hand, if the tests overstate ge, a plant could be shut down cessarily. Plant shutdowns related etal damage are frequent. Maine ee Atomic Power Co., for instance, ending $40 million to encase all 0 steam tubes in its Wiscasset ne) plant after tests indicated s. Oldberg argues that the NRC d conduct new tests of the accura- nondestructive evaluation or rean- the raw data from old tests using lard statistical methods. That, he would produce a solid understand- f how accurate nondestructive eval- n actually is.

c officials say their verification ods are logically consistent and re- . As for Oldberg, "it's very difficult s to figure out what he's saying use his arguments don't always make sense," says Lee R. Abramson, senior research statistician in the Probabilistic Analysis Branch of the NRC's Office of Nuclear Regulatory Research.

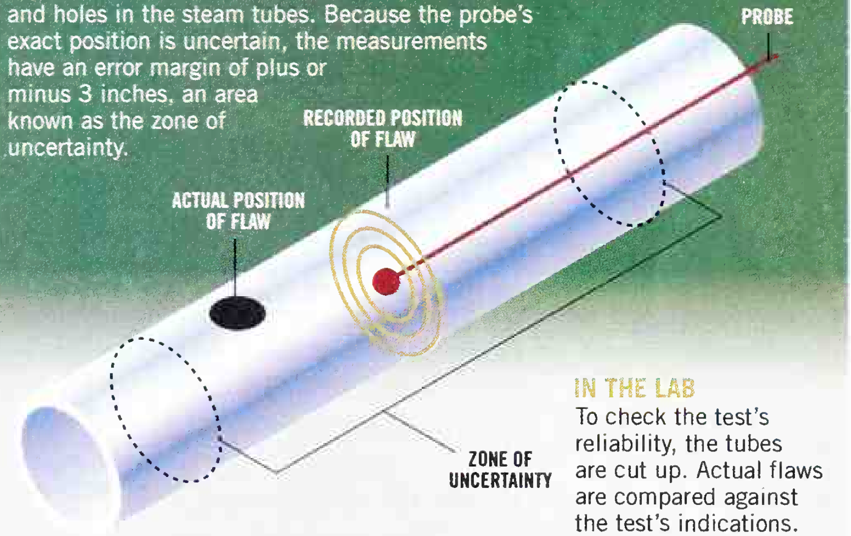
Nonetheless, Oldberg is starting to pick up support in a crusade he has been on since the late 1980s. A key ally is Ronald A. Christensen, president and co-founder of Entropy Ltd., a statistical research and consulting firm in Lincoln, Mass. Entropy's clients have ranged from drug companies to the NRC. Oldberg has also gotten support from Eric Perdijon, director of quality assurance in the department of thermo-hydraulics and physics at France's Commissariat de l'Electricité Atomique. Says Perdijon: "We should have clear laws" for how testing methods are verified.

Oldberg's controversial stance began to get more attention in January when he presented a peer-reviewed paper he co-wrote with Christensen at the annual engineering conference of the American Society of Mechanical Engineers (ASME) in Houston. The ASME writes codes for steam tubes, among other things. Donald E. Bray, a Texas A&M associate professor of mechanical engineering who served as chairman of Oldberg's panel, says he plans to put some of Oldberg's findings in the next edition of a textbook. But he also says he thinks nondestructive evaluation as prac-

THE DEBATE OVER SAFETY

Nuclear engineer Terry Oldberg challenges the statistical method used by the Nuclear Regulatory Commission and others to measure the reliability of nondestructive examination of equipment such as steam tubes.

IN THE PLANT
A probe uses electric current to find indications of cracks and holes in the steam tubes. Because the probe's exact position is uncertain, the measurements have an error margin of plus or minus 3 inches, an area known as the zone of uncertainty.



IN THE LAB
To check the test's reliability, the tubes are cut up. Actual flaws are compared against the test's indications.

CONFLICTING ANALYSES

NRC If an actual flaw is found within three inches of an indication, the NRC deems it a "true positive." The NRC says its test is good because nearly every flaw is called a "true positive" and there are few "false positives"—that is, indications that don't have flaws within three inches of them.

OLDBERG The NRC's verification method is untrustworthy, Oldberg says, because given the uncertainty in position, there is no way to be sure that an indication is pointing at an actual flaw. It could be that the device did not see the actual flaw, but just happened to make an indication in that area.

ALAN BASEDEN

ticed has helped make the nuclear industry "extraordinarily safe." Says Bray: "I don't know who the good guy and bad guy is, frankly."

The man who's stirring up this controversy is hardly an outsider to the nuclear industry. In the 1960s, Oldberg worked for the government's elite Lawrence Livermore National Laboratory, designing a nuclear reactor for outer space. Later, he worked on a fast-breeder reactor for General Electric Co. From 1974 to 1986, he worked for Electric Power Research Institute in Palo Alto, Calif., the R&D arm of U.S. electric utilities. His last job there was to oversee research on the safety of steam generators in pressurized-water reactors.

If Oldberg is right, there could be unnecessary shutdowns—or disaster

It was during that EPRI assignment, Oldberg says, that he discovered the statistical flaw underlying nondestructive evaluation research. He says a disagreement over the issue led to his departure from EPRI, but he won't comment further. After failing to find another job in the nuclear industry, he went back to school to study programming and has been trying to get a job while living off his wife's salary and firing off letters to the NRC and American Society of Mechanical Engineers.

Oldberg is careful to say he doesn't object to nondestructive evaluation itself, only to the statistical methods engineers use when they check the test's accuracy by occasionally cutting steam tubes to compare indications of flaws with actual flaws.

In medicine, verification is simple: The study population consists of every person in a trial. A "false positive" is calling a well person sick; a "false negative" is calling a sick person well. Oldberg favors applying the same approach to steam tubes. Each, say, two-foot length of tube would be a unit, analogous to a patient. The test would label a section positive (that is, sick) if the minimum thickness of its wall appeared to be less than, say, 60% of the original thickness. For verification, the nuclear "doctors" would cut the tubes and measure the actual minimum thickness of each length.

The NRC went wrong, Oldberg
by defining a nonstandard popula
Instead of the units being lengt
tube, the NRC's population units ar
flaws themselves. The NRC doesn
the flaws to any given length of
Instead, it counts as a "true posi
any flaw that falls within three inc
an indication—the device's marg
measurement error. The proble
there's no way of knowing whethe
flaws found in this "zone of uncert
are actually being indicated by th
vice. It could be that the devic
happened to make an indication i
same area. As Christensen notes:
less accurate your instrument, the
er your rate of detection."

This may sound confusing, bu
considerably clearer than the corre
dence among Oldberg, the NRC, an
American Society of Mechanical
neers. Indeed, miscommunication
be a big part of the problem.
A&M's Bray says what's needed is a
advertised forum where experts
all fields can grapple with the issu
come to a decision once and for
decade is too long for such an imp
issue to kick around unresolved.

By Peter Coy in New

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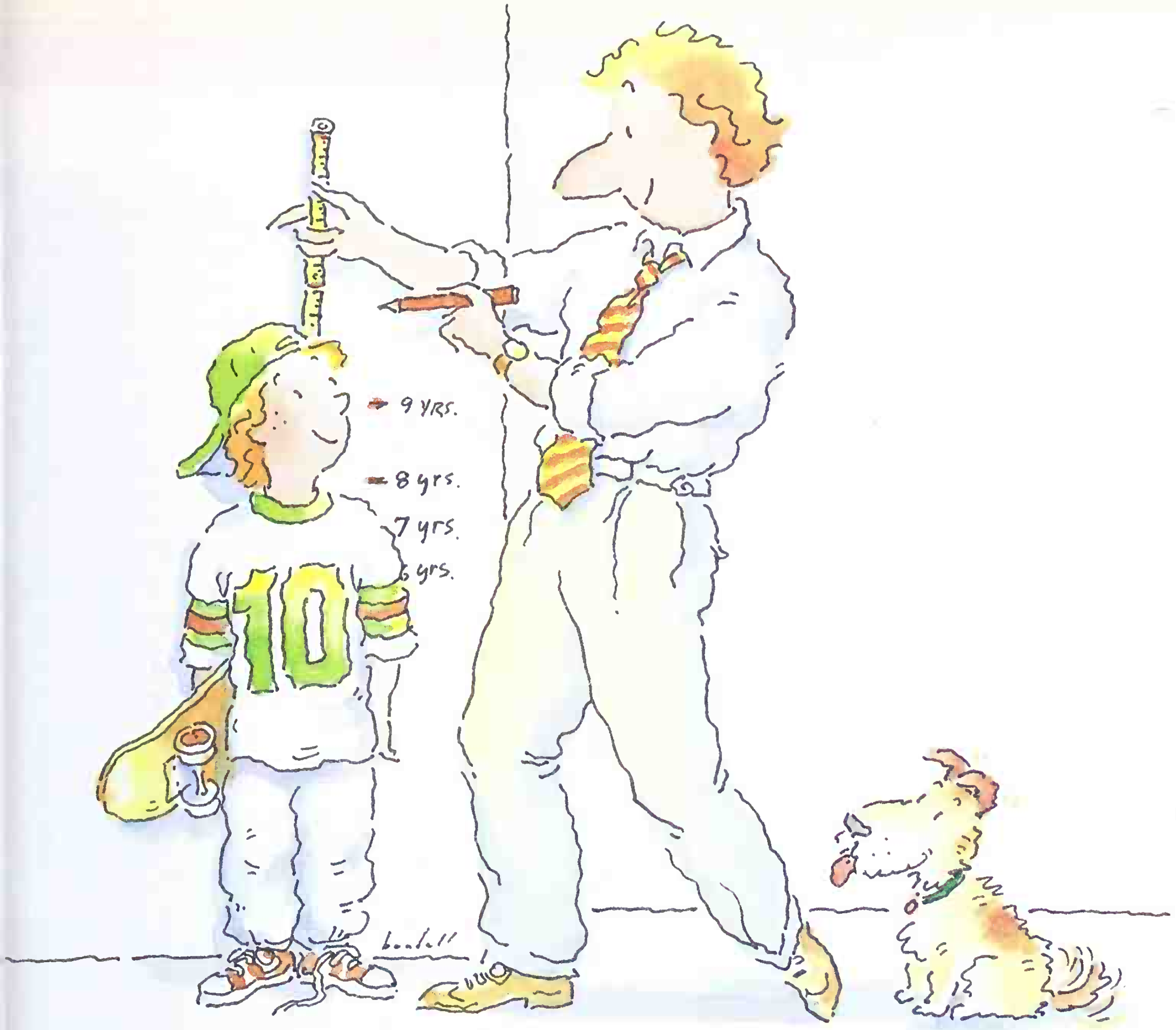
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Developments to Watch

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PROTECTING THE IMMUNE SYSTEM FROM ITSELF

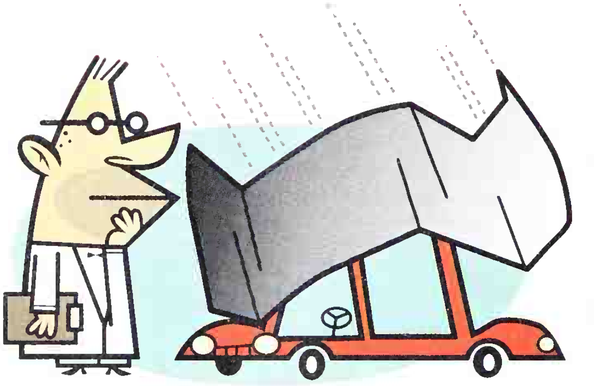
LIKE SOLDIERS IN WAR WHO turn on their commanders, the body's immune defenses can attack normal tissue, triggering diseases such as rheumatoid arthritis and multiple sclerosis. The problem is a communications breakdown between "helper" T cells and antibody-producing B cells, which normally cooperate to destroy invaders.

Two years ago, Dartmouth Medical School immunologist Randolph Noelle reported that he had halted such autoimmune reactions in mice with a monoclonal antibody—a protein that can bind to cells and block functions. Now, he has extended the technology to humans and licensed it to San Diego-based IDEC Pharmaceuticals Corp., a leader in making monoclonal antibodies for cancer and autoimmune disease.

The protein that Noelle isolated attaches to a site on T cells called gp39, which serves as a kind of communication link between T and B cells. In experiments with mice, Noelle found that the protein interrupts communications when it binds to the gp39 site. The mice then stop producing their own, marauding antibodies, and the disease symptoms vanish. Incredibly, when protein injections are terminated, the mice begin producing antibodies again—but the animals remain disease-free. In effect, Noelle says, the anti-gp39 protein "resets the mouse's immune system."

IDEC plans to "humanize" the anti-gp39 protein by splicing it with human DNA to produce a drug. Clinical trials could begin as early as 1997. The protein should block rogue antibodies in humans, says IDEC CEO William Rastetter. "And we'd also hope to see the suppression continue."

ILLUSTRATIONS BY [illegible]



KABOOM! HERE'S AN ALUMINUM MOLD

ALUMINUM HOLDS GREAT ALLURE FOR AUTO COMPANIES that want to boost fuel efficiency by reducing the weight of the car. But unlike steel, the lighter metal tends to tear during molding. To make it more elastic, researchers at Ohio State University are resurrecting a technology from the 1950s, which literally explodes thick sheets of aluminum into forms.

Researchers trigger the explosion either under water or in the presence of a magnetic field. It generates shock waves that fling the metal into the mold at speeds as high as 220 meters per second, according to Glenn S. Daehn, a professor at OSU's Materials Science & Engineering Dept. Another advantage: Instead of the typical two-sided dye-casts, with their male and female parts, this process requires just a single, one-sided dye.

Daehn says that Maxwell Technologies and other companies developed this approach, called electrohydraulic forming, 40 years ago. Then they put it aside while they pursued more lucrative defense contracts. Now, OSU is reevaluating it with General Motors Corp. and Rockwell International Corp. Daehn is also talking with Aluminum Co. of America, which has developed an all-aluminum car with Audi of Germany. Alcoa is investing in a new auto parts plant in Ohio and will consider using electrohydraulic forming as part of the production process.

HOW TO JUDGE A HOT PEPPER BY ITS GLOW

THERE'S FOUR-ALARM C
There's five-alarm chili
then there's chili that m
you weep and sweat. O
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peppers range in ho
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ingredient in hot peppe
bit of pepper is pu
through a column to sep
the components. The
light they absorb, the
capsaicin is present. Ho
pers aren't just for
Johns Hopkins Universi
searchers are developing
saicin-based ointments for leg pain in AIDS patients.

ELECTRIC CARS ARE SPARKING A DEBATE

ELECTRIC VEHICLES, PRIZED for their environmental virtues, hit a pothole last month: Researchers from Carnegie Mellon University in Pittsburgh publicly fretted about the impact of a grand-scale EV roll-out in "zero-emission states" California, New York, and Massachusetts after 1998. Pollution from manufacturing thousands of large lead-acid batteries, they warned, would offset the benefits of having fewer combustion-engine cars on the roads.

The Electric Vehicle Association of the Americas (EVAA) reacted quickly. To begin with, the association argues, lead-acid batteries will eventually be replaced by nontoxic types. Next year, a General Motors Corp. battery venture called GM Ovon
ramp up production of
metal hydride batteries
Dayton pilot plant.
companies are explori
dium and lithium altern
Moreover, 188 million
trucks, and buses on
roads already contai
batteries, says EVAA E
tive Director Robert T
den. "This current inv
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es from electric vehicle"

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DIGITAL'S TURNAROUND: TIME FOR PHASE TWO

With its financial house in order, DEC wants to retake the lead in networking

When a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully.

—*Samuel Johnson*

Around Digital Equipment Corp., they call it Black Friday. Everybody seems to remember where they were when they heard the news. Pauline A. Nist, a top computer-systems executive, was in England when her secretary called to report that back at headquarters in Maynard, Mass., people were "walking around acting like the sky had fallen in." Lawrence G. Walker, now head of Digital's networking unit, says he got the news during the middle of the night in Australia "and literally fell out of bed."

Black Friday—Apr. 15, 1994—was the day Digital stunned Wall Street and even its own executives with the news that it had lost $183 million in the prior quarter. The loss far exceeded DEC's internal projections, exposing a startling weakness in its financial systems. Worse, the quarter was supposed to herald a long-awaited rebound after three years of red ink and restructurings. Instead, it laid bare the ugly truth that Digital was still in an uncontrolled downward spiral. CEO Robert B. Palmer's strategy lay in tatters. Cash on hand was down to $1 billion—when DEC was ordering layoffs and plant closings that would cost $1.2 billion. Industry watchers began to whisper the unthinkable: Digital, once the No. 2 computer company, might not survive.

But if Black Friday was DEC's darkest day, it may also have been a crucial turning point. Facing the corporate equivalent of Johnson's noose, Palmer and his team cobbled together a last-ditch turnaround plan that finally addressed some deep-seated problems. Announced last July, the plan shifted sales from DEC's sales force to hundreds of resellers—in the process, slicing thousands of jobs. It also scrapped Digital's once-innovative matrix management scheme, which had deteriorated into a politicized jumble of inefficiency and finger-pointing. Instead, it has been grouped into a series of mini-DECs, organized by product line, each responsible for its own bottom line and geared toward emulating the best in each industry segment.

The progress since then has been remarkable. Costs are down nearly 20%, and the shrunken workforce is bringing in higher revenues. There are also hot new products, including the AlphaServer 8400, a system for running netw
that uses up to 12 of Digital's speed
pha microprocessors, and the nev
Note laptop, which has garnered
reviews. Digital posted slim prof
the second and third quarters of
1995, the first back-to-back quarte
black ink since early 1991. The
crunch is over and DEC's stock,
hit 18¼ last April, is in the 40s. "I
the future for Digital is very br
says Palmer. "But that's not to say
we've yet completed by any mear
financial turnaround or the stra
turnaround."

"NOT A STRATEGY." Indeed. Nobc
suggesting that the company's longe
success is assured. Once the ki
minicomputers and a market pion
other areas, the company has fall
second, third, or worse in nearly
industry segment. In effect, Paln
trying to play catch-up on a dozen
while quarterbacking a $14 billion

Still, with Digital's finances o
mend, Palmer says he can concen
on the strategic turnaround. Wo
with consultants from Bain & Co
company has hatched a new corp
strategy intended to reignite gr
Palmer, a 54-year-old native Texa

THE PALMER METHOD

"I think the future for Digital is very bright... The company kno
more about networked computing than anybody"

SINCE BLACK FRIDAY, PALMER HAS TACKLED DEEP-SEATED PROBLEMS

DONE

- Refocused DEC core Alpha hardware and networking, jettisoning database software, consulting, and disk storage
- Shifted most sales to indirect distribution channels, slashing costs by signing on computer resellers as key selling partners
- Relaunched PC business

IN PROGRESS

- Playing a hardware game but avoiding commodity margins by adding value in networking
- Positioning company to take advantage of key new trends, such as mobile computing and video on demand

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NEW HI-NOTE LAP
HAS BEEN GARNE
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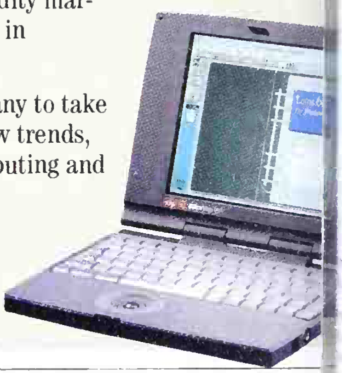

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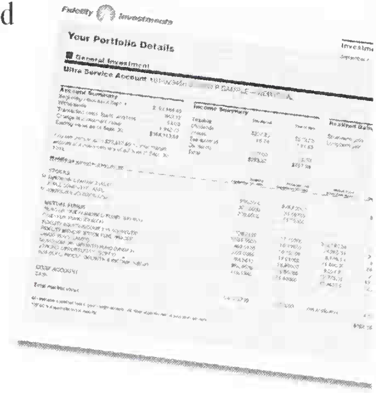

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CHIP SHOP: *Hardware is Digital's mainstay, until networking pays*

semiconductor-industry veteran who cofounded Mostek Corp. in 1969 and moved to Digital in 1985, says the basic thrust is to leverage DEC's deep expertise in networking.

Digital, he claims, "knows more about networked computing than anybody. You can buy a PC or even a complex system from any number of vendors," he says. "But how do you get all this stuff to work effectively and reliably in your network?" The company, then, will focus its investments on hardware, software, and services that support this overarching ambition. Though he concedes that Digital "is not necessarily the best in specific" product lines, he says its strength lies in "the package—integrating, supplying, and deploying distributed computing environments."

Nobody doubts that there's a need for such expertise. But, says Gresham T. Brebach Jr., a former head of Digital's consulting unit, "There's a clear disconnect between the way they describe the strategy and the way they've arranged themselves to bring products and services to market." If networking is truly the goal, he argues, Digital should have kept an earlier structure that offered "solutions" for specific industries. "Connectivity is a historical core competency," he says. "But a core competency is not a strategy."

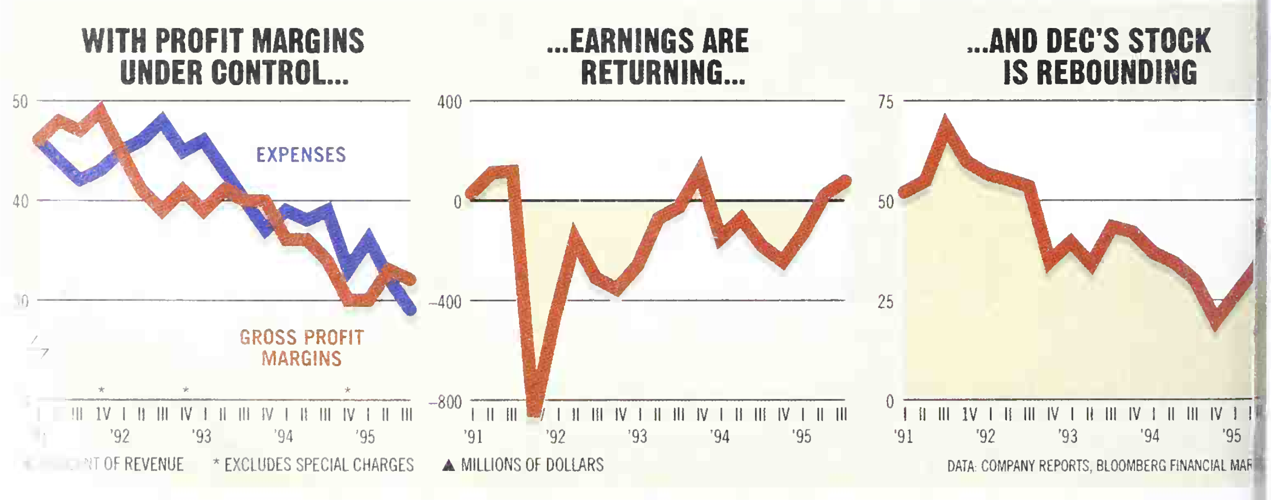
Moreover, DEC's claim to network superiority is open to question. A decade ago, it was the acknowledged leader, but the rest of the world has not stood still. "There is no way on the planet that Digital is the best at networking," says Philip C. Anderson, a professor at Dartmouth's Tuck Business School who follows the computer industry. "They can do a good computer network, but the idea that they're better than the next 10 or 15 companies is ridiculous."

Some observers feel that Digital's networking plans, even if successful, will do little more than add a few margin points to what is really a hardware-oriented strategy. The new Digital, argue, looks like the Digital of 1970s—when it was known as a box" company and before it trie take on IBM. Then, as now, it sold performance hardware mostly thr third parties, with services and ware playing a supporting role.

There's nothing wrong with a ware strategy—it made DEC the success it became in the 1980s. B keep up with today's hot-box co nies—Compaq, Silicon Graphics, an Microsystems, to name a few—m gearing the company to a low-ma commodity-like environment. Eve day's slimmed-down Digital may n ready for that. DEC's revenue of $2 per employee looks downright i cient next to IBM's $317,000 or $403,000. "If all they want to be volume hardware player, they still too many people," warns Lynn Be research director at Gartner Grou

COMPUTING ON THE GO. Palmer br at the idea that Digital is reverti simply a hot hardware company. " would leave very little opportunit good margins or to grow the busi he says. Digital executives claim already have many of the pieces to port their networking vision and pr to reveal more in coming months. plan to push a raft of Digital soft products that allow computers ru different operating systems to comu cate and share programs. And the pany recently introduced a servi maintain and continually upgrade a tomer's PCs for a fixed monthly fee ing away the headache of trying to guess the pace and direction technology at the endpoints of the

Digital also is focusing on sever



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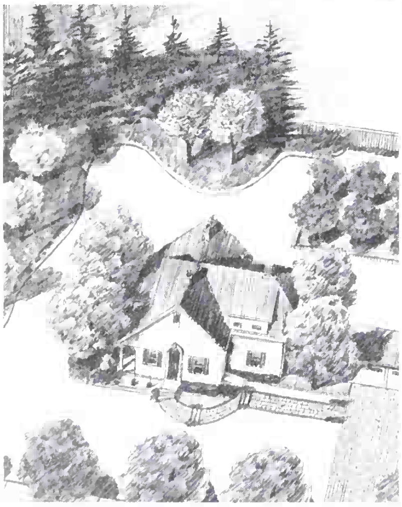

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tentially hot new markets involving complex networks, notably video servers, the Internet, and mobile computing. The company claims it has won about half of the worldwide contracts for video servers, complex systems that will deliver TV programming on demand. And later this fall, Digital plans to unveil a software program aimed at helping make a mobile PC act like it's connected to a corporate network, even when it's not.

While Digital waits for its still-vague networking approach to pay off, it will have to rely on its mainstay: hardware. Rivals such as Compaq Computer Corp. and HP have cast their fate with the industry-dominant Intel architecture, but Digital has adopted a twin-track approach. The first track is the building of PCs and larger servers using Intel Corp. chips. DEC's PC unit has leapt from an asterisk on industry market share charts three years ago to No. 11 last year and is predicting a sizzling 60% growth rate for fiscal 1996. But Digital executives say they've dialed back their ambition to break into the top five this year, and some concede the PC unit is unlikely ever to show big profits, although it does provide badly needed entry-level products to bring DEC new customers.

DEC is aiming at hot new markets: Video servers, the Internet, and mobile computing

ALPHA AND OMEGA. Digital's second track—its real edge in hardware—remains its super-fast Alpha microprocessor. The chip was the first with 64-bit architecture, which means it grabs data from a computer's memory much faster than industry-standard 32-bit chips. Bringing it out was a gamble for Digital, because the new architecture required software makers to adapt programs at great expense. Alpha also required huge investment in R&D and chipmaking that would not be recouped if the microprocessor didn't catch on in a big way.

After an agonizing lag, Alpha's speed is beginning to attract key software. "The price-performance is impressive," says Ron Robbins, president of RTP Technology Corp., a Fair Lawn (N.J.) reseller. "We're taking databases off mainframes and putting them on Alpha, and crunching data in 2 minutes vs. 22." In April, Oracle Systems released an Alpha version of its popular Oracle 7 database, a combination that Oracle claims produces by far the industry's best performance. John B. Jones Jr., an analyst at Salomon Brothers Inc., expects Digital's Alpha systems sales soar 84% in fiscal 1995, ending Jun to $1.7 billion, and may rise anc 55% by next June. While that's im sive, many of the sales simply re older Digital hardware.

Alpha still faces a long-term lem: The chip hasn't won a singl fluential convert among other com makers. That could ultimately prov tal when it comes time to fund mind-boggling cost of succeeding g ations of chips. Digital executives cede that they will have to find a tion, perhaps by finding a partn share the cost of the next chip But they say a new $450 million pla Hudson, Mass., will carry Alpha the next centu

Meanwhile, count on Micr Corp.'s Window operating syste fuel Alpha sales which is catchir quickly as an ating system network ser runs on a varie chip designs. In theory, that will eliminate Alpha's biggest handicap: of applications software. Then, Al superior performance will really s out, says Ed Caldwell, chief of Dig semiconductor division. "We will be to so outperform Intel and every else that we'll be able to take ove high-end desktop, period."

Will it work? Some outsiders out that the best technology rarely on its own. Such non-technical issu marketing ability, market momen and availability of applications soft usually determine long-term win "There's absolutely no history of t migrating toward the fastest chip able," says Gartner Group's Lynn Computer power is advancing so r ly, she says, that most customers stick with a chip that's slower—as as it runs popular software. Her co sion: "There's a lot of wishful thi going on" at Digital.

Not as much as there once was fore Black Friday, Palmer and his utives were so confident that A would overwhelm the competition they never reexamined their basi sumptions about the business. spent heavily on building a sales for sell end-to-end solutions in specif dustries, such as health care and cial services, and clung to nonstra businesses, such as making disk d

Black Friday made it clear that ital had neither time nor mone sentials. Suddenly faced with ques- about his leadership from share- rs and Digital's board, Palmer ; into action. An engineer by train- ie's the kind of guy who keeps a his daily running in hopes of log- 5,000 kilometers by age 55—Palm- lered drastic cuts. Gone are the lting unit, the disk drive opera- ind database software.

mer executives say the CEO d onto a rescue plan hatched last ; by Bain consultants and Enrico ori, an ex-Olivetti executive and r CEO of Zenith Data Systems, iad relaunched Digital into PCs urprising success. His secret: the it was a stand-alone entity, aloof Digital's matrix setup. "The matrix ure was a major part of our prob- says Charles F. Christ, who heads omponents unit. In the matrix, gers from various disciplines met nmittees that were supposed to up with better ideas through pollination. But responsibilities olurred, and when Digital started de "we ended up with a lot of s discussion about what ought to ie," he says. The system masked and forced managers to waste rangling over internal procedures. y after the computer systems unit eparated from the matrix, says ori, did managers discover they osing 30¢ on every dollar of sales. and administration costs were 2½ higher than one rival's. Pesatori, iow heads a division overseeing Alpha-based servers and PCs, de- the company could no longer af- o sell to 10,000 accounts. He the sales force to focus on just op clients, boosting the percent- sales through indirect channels 8% last April to 50% today. Pesa- ys the unit's costs are competitive ndustry averages and will break oy the end of June.

a long way from Black Friday. a large degree, the accomplish- of the past year have merely it Digital to the point where it's to compete again. If Palmer can't DEC stand out with his networking y, the company risks following the f another former industry No. 2, Corp., which now mostly serves base of customers and is watching enue slowly shrink. "We are not to turn ourselves into a new Uni- ows Pesatori. "Digital is a compa- it's too proud, where people be- they will make a difference in iation technology." Once again, l's mission is to deliver on that e.

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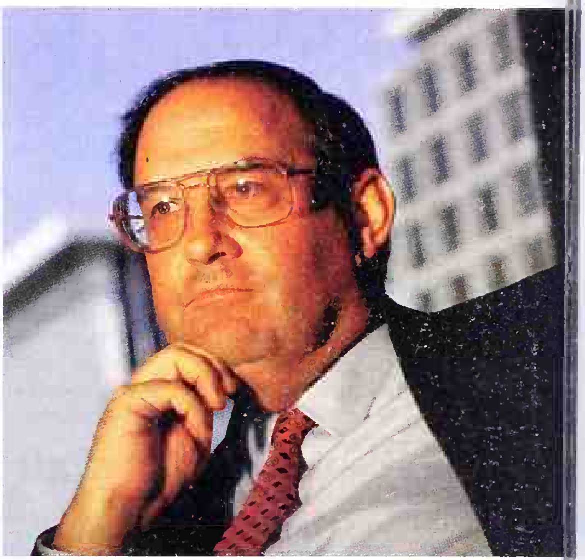
A YANKEE IN TOKYO'S COURT

Bill Duncan champions Japanese carmakers



"DR. BILL": *Duncan prefers discourse to dramatics*

It's not easy being Bill Duncan these days. Usually, the scholarly head of the Washington office of the Japan Automobile Manufacturers Assn. (JAMA) likes to keep a low profile. But in mid-May, Senator Carl Levin (D-Mich.) thrashed Duncan as a hypocrite on the Senate floor. Blasting Tokyo for shutting its markets to U.S. autos and auto parts, Levin quoted liberally from a book Duncan published more than 20 years ago. The book, declared Levin, who had launched a concerted search for the long-out-of-print account of the early rounds of U.S.-Japan auto negotiations, "provides strong historical support for the Administration's decision to pry open markets which have been discriminatorily closed to us for three decades."

As the American spokesman for Japan's car companies at a time when Washington and Tokyo are on the brink of a trade war, Duncan better get used to such treatment. JAMA is jockeying for the spotlight as the June 28 deadline for U.S. sanctions on imported Japanese luxury cars nears. It has already run full-page ads in *The New York Times* and *The Washington Post* excoriating the Clinton Administration's stance as strong-arm tactics that won't work. And on June 2, JAMA launched its first U.S. television commercial, aimed at policymakers and journalists in the Washington metro area.

TWEEDY CREDENTIALS. Such methods are bound to rile America-Firsters. JAMA "is just mouthing the Japanese government's propaganda line," scoffs Pat Choate, author of *Agents of Influence*, a book about Japanese influence-peddling in Washington. But the man crafting JAMA's message belies the stereotype of the slick lobbyist in an Armani suit. Bespectacled, with a faint New England accent, Duncan, 53, looks and sounds like a professor. In fact, he did postgraduate work in international economics at Tokyo's prestigious Keio University and earned a PhD in the subject from Tufts University.

Duncan doesn't speak in sound bites; he lectures. And his background and long tenure at JAMA, which he joined in 1976, impart an intellectual authority to his comments on behalf of Japan's car companies. "I call him Dr. Bill," says Philip A. Hutchinson Jr., president of the Association of International Automobile Manufacturers, of which JAMA is a member. "He has a depth of knowledge of economic subjects that most government-relations people lack."

Duncan spent three years in planning for Mobil Corp. before taking the JAMA post. He says he was drawn to the job because the auto industry, like Big Oil, was undergoing dramatic structural change. "When I was at Mobil, there was a lot of anger at oil companies because prices were going u the industry was still providing a valuable service to the American sumer," he says. "The Japanese ind in the very same way came in as a petitive force. It was providing quality small cars when the U.S not have high-quality small cars."

He denies that Japan's indust closed to foreign players, arguing U.S. carmakers haven't penetrate market because they haven't ma serious effort. But he concentrates of his rhetorical firepower on U.S. tiating tactics. Washington's insis that the Japanese commit to speci creases in purchases of American is "a forced-sales approach," he "It amounts to asking another cap country to do something that this try would certainly never accept."

SMART MOVE. Blasting the world's dard-bearer of free trade for tryi manage trade is a forceful argu that has put the Administration o defensive. JAMA has been "very, skillful in making purchasing ta the whole issue," concedes Greg M senior fellow at the Economic Str Institute, a Washington think tank backs the White House's stance other smart strategic move: JAMA h the heavyweight lobbying to impo dealers and American representa of Japanese transplant factories speak for U.S. workers and empl

As persuasive as Duncan ca however, some say his argument ig the subtleties of U.S.-Japan trade. Ford, General Motors, and Chrysl working harder to sell cars elsewh Asia than in Japan. But as Kevin er, a partner with the Scowcroft

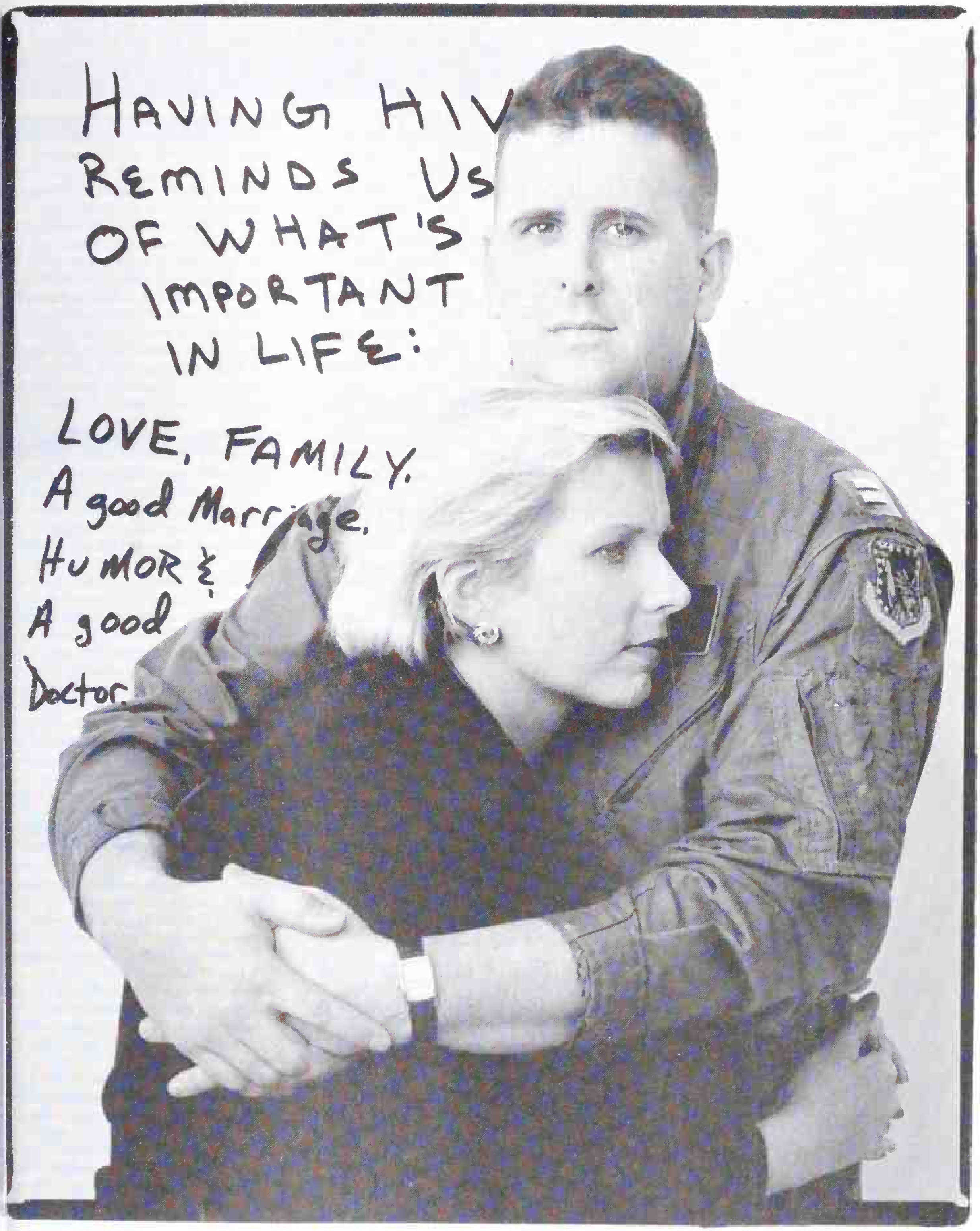
The World According to Duncan

ON THE TRADE IMPASSE "When Japan's auto makers say they're not going to accept what is basically a forced-sales approach... they're not going to do it."

ON THE THREAT OF SANCTIONS "The Clinton Administration has gone to bat for the Big Three and is now on the verge of stealing the bases with a blatant and irresponsible violation of international law."

ON THE BIG THREE "If the European companies can make it in Japan's vehicle market, surely Ford, Chrysler, and General Motors can."

ON JAPAN'S AUTO INDUSTRY "It was the basic principles of competition that made the Japanese automobile industry strong."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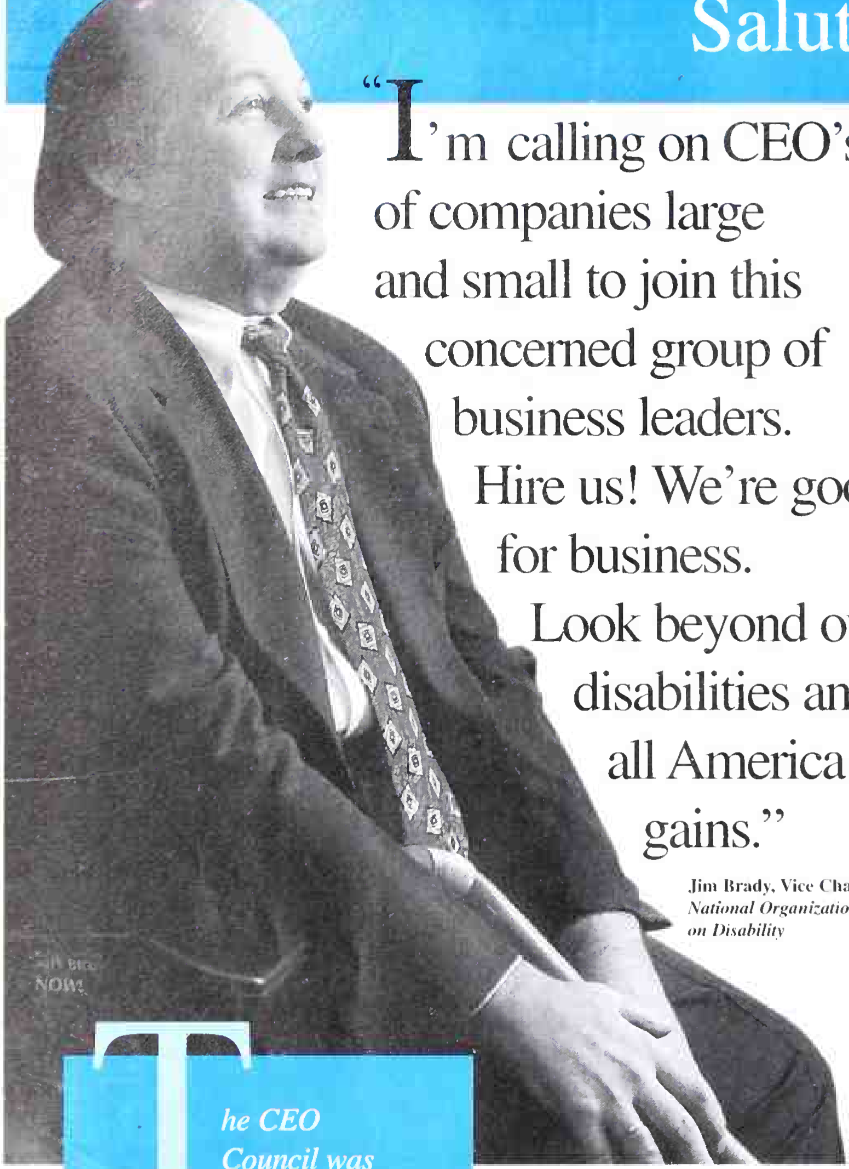

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A MAMMOGRAM. EARLY DETECTION IS THE BEST PROTECTION.

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AME
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iington consulting firm, notes,)arts companies that are eager in Japan "have been frustrated an's regulatory structure" and idden barriers.

›over, the idea of setting volun- rts-purchasing goals was original- o's. In 1992, at the urging of the ; of International Trade & Indus- an's carmakers agreed to double ırchases of American-made com- ;, to $19 billion. That goal will this year, but the U.S. wants ɔ double it again. Duncan credits ny-to-company" dealings for the ı parts purchases, glossing over that the fear of sanctions drove auto makers to deal with Amer- ·ts suppliers in the first place.

the Clintonites insist that, far ıreatening free-market capital- y're seeking short-term affirma- ion for a key sector. A similar h, launched in the late 1980s, J.S. semiconductor manufactur- a 20% share of Japanese sales.

VIEW. Duncan wins praise from stry adversaries for his gentle- ays and his initiative in arrang- :hmaking sessions between U.S. ıppliers and Japan's carmakers. omeone I feel very comfortable with," says Andrew H. Card Jr., ıt of the American Automobile :turers Assn. "The trauma of never affects our ability to work :" Then again, Duncan could be raise good manners to an art Senator Levin's attack, he says: U.S. senator respects my book to read pages into the *Congres- Record*. I can't be anything but by that."

some Administration officials ncan's polemical style an irri- mpediment. He sticks tightly s public line. "He's not the kind ɔn you can talk to to resolve ;," grouses one official. "Even ɔta people acknowledge there's ırea, where they can do more an we."

ırse, the well-heeled Washington Duncan is part is full of both and Lexuses, and representing :armakers "hasn't been particu- comfortable," he says. When earn what he does, "the usual is, 'I've been driving a Japa- and I love it.'" Duncan himself und the northern Virginia sub- ere he lives, in a Nissan Maxi- Toyota Previa. But he fondly ıe GM Cutlass station wagon he ıe early '80s. No one is lobbing Bill Duncan. But as the rancor e may be dodging more brick- n the likes of Senator Levin.

By Amy Borrus in Washington

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U.S.News & World Report—February 6, 1995

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THE DRUG TRADE

STEROIDS: A SPREADING PERIL

Thousands of young U.S. athletes are risking their health

If you are a middle-class American and have a serious athlete in the house, odds are that your youngster has at least thought about taking steroids. It doesn't matter if you live in Seattle or Grosse Pointe or Boston. Steroids are everywhere.

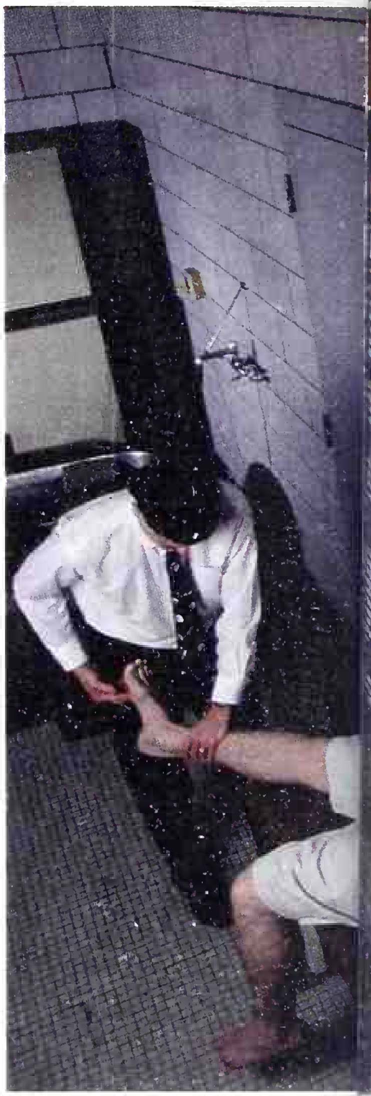
In the four years since anabolic steroids went on the federal controlled-substance list, their legal manufacture in the U.S. has been severely restricted, yet they appear to be more available than ever. It's no mystery why. Domestic demand is enormous, and profits are excellent. A single kilogram of raw testosterone purchased legally at wholesale for $500 can sell for $24,000 on the black market, be mixed with calcium and made into tablets, and produce about $100,000 in illicit steroid sales. Says Gene R. Haislip, deputy assistant administrator of the Drug Enforcement Agency (DEA): "We see factories all over the world producing amounts clearly in excess of any legitimate need, but they're only meeting market demand. This is a consumer-driven operation."

STARTING AT 10. Steroids are being abused not just by elite athletes out to set records, such as the young Chinese swimmers who tested positive at the Asia Games in Hiroshima last October (page 140). They are being taken by jocks all across America and often by young people just out to look good.

WILD HULK

"I had this one kid –15 years old–I made a monster out of him. I took him from 180 pounds to 236 in a year"

KOSTAS, BEFORE AND AFTER: *He now preaches against steroids*



INJURY EXPERT GAA WORKS ON A TEEN WHO DOES NOT DO STEROIDS

How many American teenagers are taking steroids? It's tough to get hard numbers. The University of Michigan's *Monitoring the Future* study, released in December, 1994, reports that more than 200,000 high school males nationwide took steroids within the year. Other estimates between 1988 and 1994 put the number of teens who used steroids as high as 500,000 a year, with confirmed reports of kids starting as young as 10.

"It doesn't matter if the number is 3% or 6%.... Too many parents are simply not alarmed that their kids are taking them," says Alan I. Leshner, head of the National Institute on Drug Abuse (NIDA).

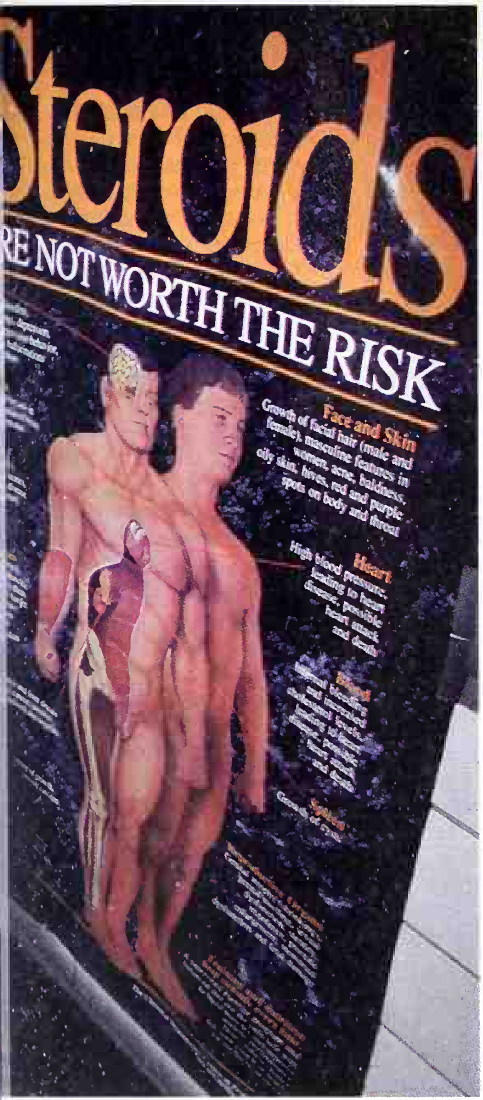
In a world where young people are constantly being bombarded by images of Adonis-like bodies and powerful athletes signing multimillion-dollar contracts, steroids can look like a magic elixir. The problem is: They work. "Juice," as steroids are called by gym rats, can pump you up fast, increase your speed, decrease the time it takes to rebound from a serious workout, and often make you as ferocious as Mike Tyson with a bloodied nose. Anyone who has ever used them or competed against a user knows that. A pumped-up Ben Johnson the power o oids strikingl when he bea Lewis in the 1988 Olympic 100 n

"After Johnson got caught, a n of my colleagues agreed stero would increase," says Charles Y professor of sport science at Penn nia State University. "He was was buff, and he blew Carl doors off. That's still the fastes ever recorded."

The International Olympic Com began testing in 1976, and 10 yea er the National College Athletic started a similar program. But four major sports leagues in A only the National Football Leag quires tests for steroids.

Big-time sports "like the be says Yesalis. "It gives world r bigger-than-life humans with t dous physical capacities they co attain without drugs. That sells sion minutes and endorsements."

It was predictable that the population would eventually war


Steroids
RE NOT WORTH THE RISK
Face and Skin
Growth of facial hair (male and female), masculine features in women, acne, baldness, oily skin, hives, red and purple spots on body and throat
Heart
High blood pressure, leading to heart disease, possible heart attack, and death
Blood

WHAT, WHEN, WHY, HOW BAD

ORIGIN Anabolic steroids, a synthetic version of the male hormone testosterone that occurs naturally in the body, were developed in the 1930s to help patients malnourished because of disease and war.

MEDICAL USE Today, steroids are used chiefly to treat men who have lost the ability to produce testosterone.

ATHLETIC APPEAL Steroids increase lean body mass and strength, improve muscle definition, quicken acceleration, and decrease recovery time—permitting more frequent workouts and thus even swifter gains in speed, strength, and bulk. They can also induce aggressiveness.

DANGERS The telltale signs of steroid abuse: acne, a deep voice, facial and body hair in women; enlarged breasts in men. More serious is the potential for testicular shrinkage, liver tumors, liver chemistry abnormalities, alterations in tendons, reduction of HDL-cholesterol, and increased total cholesterol. Dependency syndrome is also documented, and users sharing needles risk HIV and hepatitis. Steroids can permanently halt the growth of long bones, causing shortened stature in teenagers.

DATA: BUSINESS WEEK

promise. Nationwide use, set
than 1 million by NIDA, is ad-
underreported. Smoking grass
and cocaine has its own cachet,
o wants to confess that their
are chemically induced?
ie high school level, too many
rs get mixed messages from au-
igures. Stories abound of coach-
ng away while young players
. When concern about anabolic
in Illinois prompted a state-
idy in 1991, results showed that
s/coaches" ranked second as a
for the drugs, right behind
ates/friends." A shocking 21% of
id a coach or teacher suggested
, reports Gregory Gaa, who ran
e-funded study. In Panama City,
t fall, one member of the high
ootball team allegedly killed a
layer over a steroid deal gone
lice say the assailant didn't have
00 he needed for his roids.
gotten calls from parents want-
now where to get steroids for
ls," says Gaa, coordinator of out-
ervices for the Great Plains

Sports Medicine & Rehabilitation Center in Peoria, which treats sports injuries across Illinois. "One guy, calling about his seventh-grade son, said he had all this potential to be an outstanding athlete but just wasn't big enough."

ROID RAGE. Usage among teenagers is particularly disturbing because it can stop the growth of long bones and curtail height. There is also the potential for testicular shrinkage, liver tumors, liver chemistry abnormalities, alterations in tendons, reduction of HDL-cholesterol, and increased total cholesterol.

Who knows what physical problems lie ahead? Says Dr. Gary I. Wadler of the American College of Sports Medicine and Cornell University Medical College: "I have great concerns for what we're going to see 10 to 15 years down the road."

There is growing evidence that steroids can be a psychological bombshell, too. Harrison G. Pope Jr., assistant professor of psychiatry at Harvard Medical School, warns that such reactions are unpredictable. "These are people with no history of violence or mood swings who will nevertheless go berserk on steroids, in rare cases becoming homicidal," he says.

Greg Kostas, a 35-year-old raw-materials buyer for a gasket manufacturer in Boston, used steroids for 13 years. He went from his natural 183 pounds to 242 within 22 months. The gym was where he bought his first steroids and eventually where he began selling them.

And the gym became his pulpit to preach the steroid gospel to kids—no less than 100 by his own count. That's the pattern in the gyms: First you are inspired by the hulks, then you inspire others. "I had this one kid, 15 years old—I made a monster out of him," says Kostas of one three-year training partner. "I took him from 150 pounds to 236 in a year, and he was out of control, fighting, stealing."

Kostas still works out, but he quit taking drugs years ago. Too many problems: high blood pressure, swollen lymph nodes—and guilt about the kids. "I did wrong for 13 years, and it was time to set it right," says Kostas, who now lectures youngbloods at the gym about the dangers of steroids.

This physical alchemy does not come cheap. Steroids are taken in cycles, 6 to 12 weeks long and usually in groups, a practice called "stacking." Depending on the kinds and number of drugs, a short four-drug cycle can cost about $2,000. A champion bodybuilder in one recent DEA case spent $30,000 a year.

Where are these steroids coming from? Mostly not from America. While legal drug sales have doubled in the past five years, to $71 billion, legitimate steroid sales in the U.S. are down to about $3 million annually at wholesale. That's less than half the figure for 1989, before they were controlled, says Susan Koch of IMS America, a pharmaceutical marketing research firm.

Foreign opportunists have rushed to satisfy illegal demand in the U.S. Steroids' new popularity has spurred production in Greece, India, Poland, and Spain according to the DEA, and recent investigations indicate activity in South Korea. But the results of a six-month BUSINESS WEEK inquiry point to Europe and Mexico as primary sources for the international steroid traffic, a trade generating as much as $750 million a year.

Dr. Tomás Buril, former director of the Czech Republic's national drug intelligence service, observes that political upheaval in Eastern Europe has allowed clandestine steroid labs to flourish. With privatization of the pharmaceutical industry, Buril says, many of the rigid controls of the communist regimes have disappeared, and drug traders have capitalized on cracks in the system.

Russia's Drug Control Dept. reports that steroids reach the black market right from factories and warehouses, to be sold openly on the street. And Buril says that steroids stockpiled by the former Red Army, which encouraged their use, have just disappeared. Of grave concern are potentially more hazardous animal growth hormones coming out of Bulgaria. "It is quite easy to convert these products for human consumption," says Ladislav Koukal, an Interpol officer in the Czech Republic.

The biggest steroid raid ever conducted in Britain points up the international nature of the business. On a cold December day in 1993, authorities hit two innocuous-looking industrial buildings north of London on a tip that the designer drug Ecstasy was being made there. Instead, the raid netted $1.6 million worth of drugmaking equipment and raw testosterone that had somehow been obtained from Roussel Uclaf, a French pharmaceutical company. The mastermind of the operation had fled steroid manufacturing charges in his native Australia, jumping bail with another Aussie to set up shop in Britain. Police closed the friend's plant in rural Scotland last summer, confiscating $852,000 worth of steroids.

"This was an enormous operation...[with] manufacturers supporting wholesalers," says Detective Constable Andrew D. Morter. Professional tableting machines turned out counterfeit Ciba-Geigy Ltd. steroid pills, complete with a stamped "C." Packaging was especially convincing, with batch numbers and bar codes corresponding to products by the legitimate manufacturers. Police cleared out three warehouses of about 1 million items and uncovered evidence that drugs had already been shipped from there to the U. S.

It was a huge operation for Britain—but worth only a few lines in a sche
ic tracing steroid sources worldwide
their growing market. Federal gov
ment seizures indicate that Mexi
America's main provider. Persona
quantities are so available that Ca
nia drug officials christened the
south from Tijuana to Rosarito B
and Ensenada "the Roid Corridor."

Day-trippers into Baja tryin
sneak back into California with h
fuls of pills and injectables stuffed
purses or jackets only hint at the
lem. While officials insist that the
smuggling truckloads of steroids
ended, they describe a pattern of s
er shipments constantly challen
American diligence. In fiscal 1994,
postal inspectors made 117 arrest
steroid trafficking, most cases in
ing weeks of tracking and surveill
They seized 75,000 units, with a s
unit defined as 50 tablets, or one
vial of injectable steroid mater
enough to keep a serious at
pumped up for two to four weeks.

Smugglers have countered by tu

DOES CHINA FEED ITS ATHLETES 'JUICE'?

In the world of international athletic competition, the medal-laden Chinese are fast becoming the East Germans of the 1990s. The difference: Though long suspected of enhancing the performance of its athletes with drugs, the East Germans never got busted as badly as China's athletes did last October.

On their way to the Asian Games in Hiroshima, seven Chinese swimmers, two canoeists, a hurdler, and a cyclist were tested and caught with an anabolic steroid in their urine. Aided by a sensitive new test, Japanese experts zeroed in on the Chinese swim team, whose record-shattering progress had left a lot of incredulity in its wake. (Last year, China's women swimmers won an amazing 12 of 16 gold medals at the world championships in Rome, after winning no golds in the 1986 Olympics.)

STRICT RULES? Beijing responded angrily—first denying that its athletes were on steroids and then, when evidence was incontrovertible, maintaining that there had been no official involvement. At the same time, Beijing sports authorities announced a so-called Three Stricts drug-enforcement program allegedly designed to keep its athletes clean. China's Foreign Affairs Ministry said the incidents of drug-taking by 11 of the country's star athletes represented only "an act by individuals." Speaking at an antidoping conference held earlier this year, Wu Shaozu, president of the Chinese Olympic Committee, stated the country's official policy: "We will not use drugs even if these are drugs that cannot be detected. We will not
even if others use drugs, and
rather not win medals than u

However, Forbes Carlile, s
for the Australian Coaches A
claims that "in the 1980s, Chi
brought in East German coac
same guys who were using st
East Germany." The associat

CHINA'S SWIMMERS DAZZLED THE ROME MEET

G. GIANSANTI/SYGMA

rivate carriers.
Customs is as-
l to stop them,
ly at obvious en-
oints such as New York's JFK
ational Airport but also at huge
e terminals such as the Federal
ss facility in Memphis.
toms reported 1,185 seizures of dif-
quantities of anabolic steroids for
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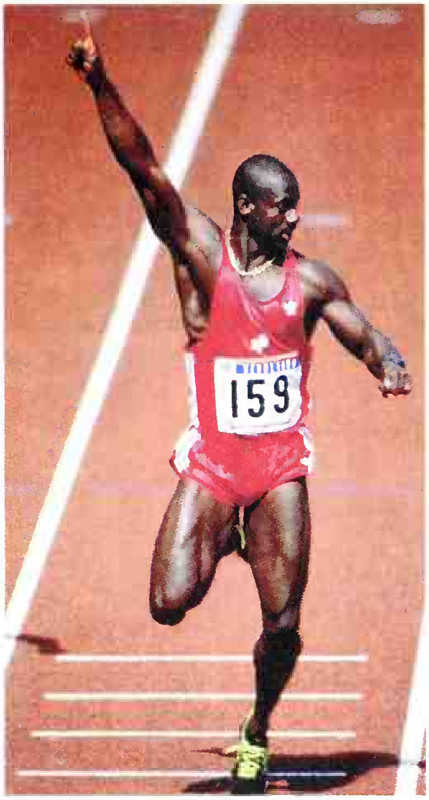
l its net. "Steroids aren't gold,"
J. S. Postal Inspector Edward C.
ger, who works international cases
is Springfield (Mo.) office. "Smug-
just keep sending more, hoping
get through." Joe Kenney of the
rnia State Bureau of Narcotic En-
ent, a veteran of the steroid beat,
tes authorities stop as little as 7%
roid shipments from abroad. Be-
federal sentencing guidelines are
on the amount of drugs in a traf-
s possession—and a single dose of
s is defined as 50 pills—jail time is
ich of a deterrent.
rm in high schools across the
y has spurred programs to com-
e growing use of steroids. School
ts in at least 14 states—among

BEN JOHNSON SHOWED THE POWER OF STEROIDS



them Arizona, California, Florida, and Indiana—have been concerned enough to initiate the testing of student athletes for steroids despite the expense of $65 to $150 per test.

The Paradise Valley schools in Phoenix took action after a survey of coaches, parents, and student athletes voiced concern over steroids and overwhelmingly supported testing. (That program is currently on hold pending the outcome of a Supreme Court case challenging testing.) But the defining event was a football game. "I looked at the other school's sidelines," says Horizon High Principal John A. Stollar Jr., "and saw this big poster showing a syringe in a red circle with a line through it and the salutation 'We don't do steroids.'"

Yet while educators and law-enforcement authorities struggle to control the flow of steroids into U. S. high schools and colleges, the rest of the world rushes to create more supply. The brutal fact is that the end of the trail is a pumped-up country seduced by steroids. It's called America.

By Skip Rozin in New York, with Julia Flynn in London, Cynthia Durcanin in Prague, and bureau reports

SIMON BRUTY/ALLSPORT

m team banned from interna-
etition for four years. Carlile,
ne to China in 1973 to help
swimming program, notes
otestosterone (DHT), a state-
nabolic steroid, can be used
so small that they are al-
sible to detect. He says the
eveloped a machine sensitive
pot it only three months be-
nes. "If they hadn't grabbed
airport and had waited an-
to test them, they wouldn't
anything," Carlile says.
gues that since all the Chi-
s were caught using DHT,
e and relatively new drug,
have got it from official
they'd all been doing this
n, they would have been us-
y of different drugs," he
besides, I don't see how
letes could afford this stuff
"
China Sports Federation
e's charge as "an entirely
and unreasonable allega-
s the government spent
ion dollars to set up its own
rol laboratory in 1987.
Shaozu's statement is also
by alumni of some of China's
ment-run sports institutes,
d youngsters are selected
d for spots on regional
e veterans suggest that far

from being an individual transgression, steroid use is, as one says, "part of the training program" in Chinese sports.

"Taking steroids is common from Shanghai to Xinjiang," says one athlete who claims to have trained for several years in a sports institute program that included steroids. He has since dropped out. Says a second alumnus: "It is common for promising young athletes to start getting steroid injections at the sports institutes at as young as 14 or 15 years of age." The Chinese athletes claim that parents of some trainees have been asked to sign statements promising to take responsibility for the doping if it is discovered.

"IRRESPONSIBLE." The All-China Sports Federation vigorously denies the charges of these athletes, calling their accusations "irresponsible." Says a federation spokesperson: "If we catch anyone administering drugs to athletes, strict punishments will be imposed in accordance with appropriate regulations." According to the federation: "All the sports organizations and sports institutes in China resolutely support and conscientiously implement every antidoping regulation set by individual sports federations."

China points out that it has taken stern action against athletes caught by international authorities: Olympic gold medalist Lu Bin, who won four gold and two silver medals at the Hiroshima Games before having them taken away by the Olympic Council of Asia (OCA), and another swimmer, 400-meter freestyle world champion Yang Aihua, were banned from competition for two years. According to the All-China Sports Federation, the remaining nine athletes nabbed in Japan have been given two- to four-year suspensions from all international and domestic competitions.

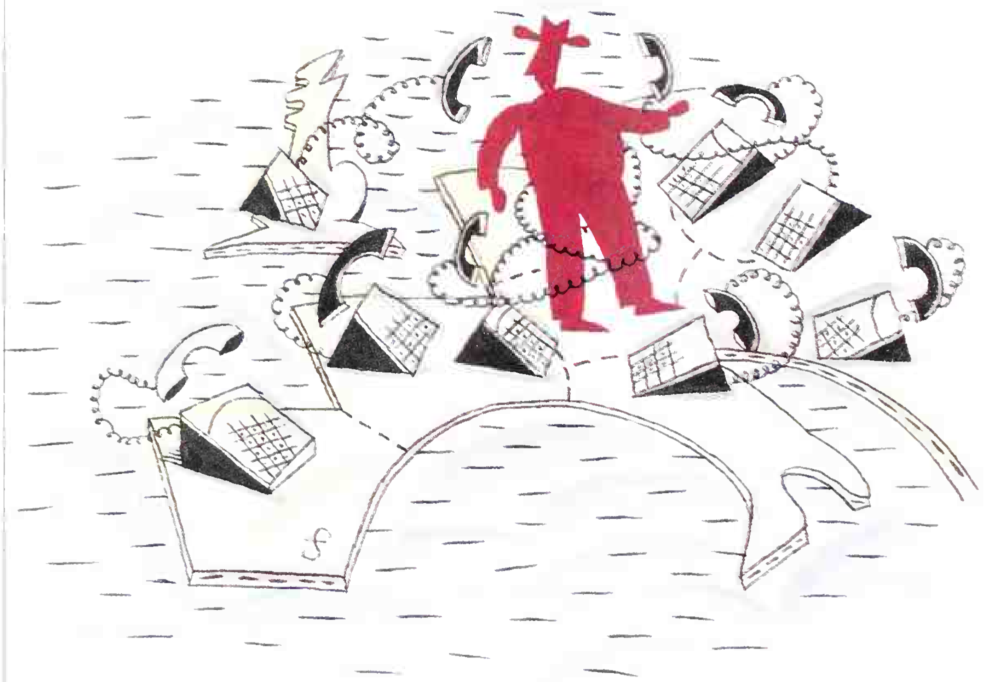
Despite the magnitude of the scandal, the leading world sports organizations have been slow to condemn China. FINA, the Swiss-based International Swimming Federation, has taken no action, and in fact barred Dr. Alan Richardson, chairman of FINA's medical commission and organizer of the Hiroshima sting, from talking to the press.

In April, both FINA, which a month earlier had sent a commission to China to investigate its swimming program, and the Kuwait-based OCA, announced that there was "no evidence" that China was systematically doping its athletes. These findings have met with surprise in some quarters outside China. Yoshio Kuroda, head of the OCA's medical commission, says it is impossible for "teenage athletes and their coaches" to use sophisticated drugs like DHT on their own. Even FINA itself concedes that systematic doping in China can't be ruled out—it just can't be proved.

By Dave Lindorff in Hong Kong, with Julia Flynn in London

EDITED BY AMY DUNKIN

GETTING A LINE ON EUROPE'S TELECOM FREE-FOR-ALL



INVESTING

If you're hoping to cash in on the global telecommunications revolution, there's no need to scour Brazil for cellular-phone investments in the rain forest. The real action these days is in Western Europe, where a wave of privatizations is creating huge opportunities for cautious and risk-loving investors alike.

In the coming year, an astounding $30 billion worth of telecom stock offerings will hit the European market. Most of them will probably be sold as American depositary receipts (ADRs)—instruments traded in the U.S. that represent ownership of foreign shares. And Italy's STET, Spain's Telefónica de España, and the Netherlands' KPN, all of which have shares already trading in Europe and the U.S., each plan to sell more stock later this year. Then will come the mother of all privatizations: Germany's Deutsche Telekom, which is expected to raise $10 billion when it is sold on global markets in early 1996.

Driving the push to privatization is the European Union's plan to open most countries up to competition on Jan. 1, 1998. Analysts think that will turn sluggish state monopolies into a hard-charging bunch of European Baby Bells that will quickly go for new markets and greater efficiency. And while Europe already boasts high phone penetration, customers there use their network half as intensively as Americans do, meaning there's room to grow.

The risk is that too many shares will be hitting the market at once. "There's going to be a lot of paper in one industry for investors to absorb," says Mark Breedon, portfolio manager of the New York Stock Exchange-listed Global Privatization Fund. Breedon thinks that is bound to put pressure on telecom stock prices. But there's little sign of that at the mo

A Heavy Menu of Telecom Stock Sales

Companies with stock offerings in 1995 and 1996

COMPANY	ESTIMATED VALUE OF OFFERING BILLIONS
DEUTSCHE TELEKOM (GERMANY)	$10.0
STET (ITALY)	7.0
KPN (NETHERLANDS)	5.5
TELEFONICA DE ESPANA (SPAIN)	1.5
MATAV (HUNGARY)	1.0
U.K. CABLE (BRITAIN)	1.0

DATA: BZW RESEARCH

The latest entrant t privatization rush is Po Telecom, which went June 1 via a $900 millio in Europe and the U. S tugal Telecom ADRS a ready fetching a $1 pre over their $18.72 off price. Another recentl vatized carrier, Tele mark, is also making After rallying sharply their initial sale in 199 Danish phone company's fell back toward their offering price—only to $29 in early June. Now gan Stanley & Co. a Richard Jones is count a further recovery. H sons that Tele Danma plenty of cash and is protected than most E an telcos against chall because of its tough co trols, hard-nosed man and low domestic rates. also thinks the compa a shot at winning month's auction for a 2 stake in the Czech Rep SPT Telecom.

BIG-BOARD BOOST? F conservative investors, Bank's head of globa coms research, Richar der, prefers "red-hot" com Italia, which trade in Europe. Telecom plans to spin off its business to existing holders on July 17, Ryder figures could bo combined value of bot panies by 25%. Beca owns 57.7% of Te Italia's shares, Italy's phone company, STET could benefit from the up. STET's upcoming from the U.S. over-the ter market to the Big in coming weeks cou push its shares up.

New Numbers for Europe's Phone Plays

COMPANY		PRICE*
BRITISH TELECOM (BRITAIN)	Cellular-phone action is heating up	$64
CABLE & WIRELESS (BRITAIN)	Global reach, but a dull stock	20
TELE DANMARK (DENMARK)	Recently privatized, rich dividend	29
STET (ITALY)	Government to sell more stock	29
VODAFONE (BRITAIN)	Global cellular telephone operator	33

*Per American depositary receipt, June 5

DATA: BLOOMBERG FINANCIAL MARKETS, BW

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cellular operator, Cell-
ritish regulators recently barred BT from buying the 40% of Cellnet owned by Securicor, a communications and armored-truck group. If the ban is lifted, NatWest Securities' Mark Lambert reckons a BT buyout could boost Securicor's share price by at least 50%.

MERCURY DROP. BT also figures in takeover talk swirling around its cross-town rival, Cable & Wireless PLC. C&W, which owns 57.5% of Hong Kong Telecommunications Ltd. as well as an 80% stake in Mercury Communications Ltd., Britain's No.2 carrier, has long been viewed as prime takeover bait, since the sum of its parts trades below its estimated breakup value. Mercury's recent disappointing results have revived rumors that AT&T might be interested in buying the British unit.

BT, meanwhile, could make a play for C&W's far-flung foreign holdings.

The action in deregulated Britain is spilling over into Germany, where competition-hardened challengers such as BT and C&W are lining up to battle inefficient Deutsche Telekom on its home turf. John Tysoe, an analyst with London broker Société Générale Strauss Turnbull, advises investors to be wary of the initial offering until the German government has worked out a host of regulatory questions that will affect rates and profitability. But not to worry: There's no shortage of investment possibilities elsewhere in Europe. The hard part is sorting through them all.

Julia Flynn and William Glasgall

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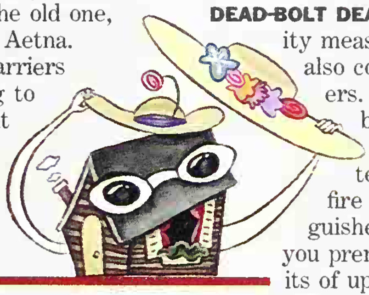
services or near coastlines subject to erosion and flooding. They also don't qualify for preferred rates offered to homeowners who insure their cars with the same company.

Recently, however, Chubb Group has rolled out a separate vacation home policy that can lower premium costs. It's available so far in 14 states, including popular second-home sites such as Arizona and Maine. The new policy squeezes savings of 30% off Chubb's traditional coverage and as much as 20% off competitors' rates by adjusting for differences in the way people use their first and second houses. Unlike a conventional homeowner's plan, which will cover personal property losses equal to as much as half the dwelling's value, Chubb's vacation policy sets a limit of 30%. The reason is most people keep fewer valuables and personal effects at a beach house or country cabin. The policy also cuts replacement living expenses from an unlimited amount to 30% of the dwelling's value. Thus, the owner of a $500,000, seven-year-old vacation home in the Aspen/Vail (Colo.) area would pay $1,005 a year under the new policy, vs. $1,501 under the old one, or $1,220 with Aetna.

Other big carriers aren't planning to follow suit. But even if you buy a regular policy, some accommodations can trim premiums. "Firefighting accessibility is the main thing," says Dan Hattaway, an underwriter with State Farm Fire & Casualty Co. Instead of choosing a place at the end of a long dirt path, settle for one on a paved road a bit closer to town.

DEAD-BOLT DEAL. Security measures are also cost-busters. Dead-bolt locks, smoke detectors, and fire extinguishers can get you premium credits of up to 10% with State Farm, and monitored alarm systems reap bigger savings. Aetna takes 5% off if you buy in a "controlled-access" community. Other tips: Engage a caretaker and install low-temperature sensors that alert you before frozen pipes burst. *Tim Smart*



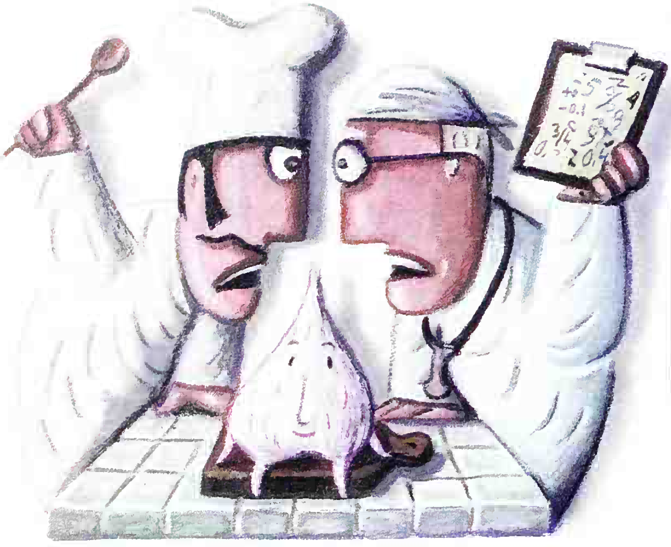
CAROLYN FISHER

Saving on a Second Home

Here are ways to shave insurance premiums on a vacation house:

- Install a theft and fire alarm hooked to a central monitoring station
- Choose a location that's readily accessible to firefighting and emergency services
- Use sensors that sound an alarm if the temperature drops low enough for water pipes to burst
- Ask a neighbor to keep an eye on the place or hire a caretaker
- Compare a price quote on Chubb Group's new vacation home insurance policy against a traditional homeowner's policy

DATA: BUSINESS WEEK



MAYBE MOM WAS RIGHT ABOUT THE SPINACH

It's alluring to think that, one day, a chemical distilled from a source as mundane as sweet potatoes or brussels sprouts could provide the genesis of a cure for cancer. So appealing, in fact, that researchers around the world are studying hundreds of vitamins, minerals, and chemicals found in the plants we dine on. And evidence is mounting that certain foods can play an important role in fighting cancers.

PRESCRIPTIONS. But science has a long way to go before it can definitively proclaim that eating more carrots will protect against lung disease or soybean burgers will ward off breast cancer. "Science is approaching this in a very systematic way," says Carolyn Clifford, chief of the diet and cancer branch of the National Cancer Institute. "In the meantime, the public is looking for a silver bullet."

For now, the medical community's strongest prescription is simply to cut down on saturated fat and eat more fruits, vegetables, and grains. Still, discoveries in the laboratory are moving ever closer to practical application for cancer prevention and treatment—and the public is hungry for more advice.

Take garlic. It's already well documented that eating a clove or two a day can reduce blood pressure, as well as cholesterol levels. But researchers are now zeroing in on chemicals in garlic that may aid in the battle against colon and breast cancers.

A recent study at Pennsylvania State University showed that a compound in garlic, diallyl disulfide, shuts down or kills human colon cancer cells transplanted into mice. "We are still in the beginning stages of exploring," says Sujatha Sundaram, a PhD student who co-led the study. In the meantime, "incorporating more garlic into the diet could probably help," she says. Hopes for garlic are running so high that Cornell Medical Center has established the Garlic Information Hotline (800 330-5922) to field the public's questions about the uses of the pungent herb.

KEEPING THE DR. AWAY. Diallyl disulfide is just one of hundreds of little-known compounds, called phytochemicals, found in fruits, vegetables, and grains. Many have no known nutritional value but some may have medicinal properties, including the ability to inhibit tumor growth, says Barbara Levine, research coordinator of the Clinical Nutrition Research Unit at New York Hospital-Cornell Medical Center.

Phytochemicals appear in the likes of green tea; crucif-erous vegetables, suc
broccoli, kale, and cab
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Cancer-Fighting Foods?

Researchers are investigating whether chemical compounds found in plants, called phytochemicals, can help prevent and treat cancers.

FOOD	PHYTOCHEMICALS	POSSIBLE BENEFITS
BROCCOLI, CABBAGE, CAULIFLOWER	Isothiocyanates, thiocyanates, indoles	Could reduce risk of breast cancer or stop carcinogens from damaging a cell's DNA
CITRUS FRUIT	Coumarins, limonene	May inhibit tumor growth, help cells dispose of carcinogens
GARLIC, ONIONS, SCALLIONS	Allium compounds	May make it easier for body to excrete carcinogens or block reproduction of tumor cells
SOYBEANS, DRIED BEANS	Isoflavones, phytosterols	May help prevent colon cancer and reduce risk of breast or ovarian cancer
YELLOW AND ORANGE VEGETABLES	Carotenoids, such as beta-carotene	Contains antioxidants, which may block damage to cell DNA

DATA: CENTER FOR SCIENCE IN THE PUBLIC INTEREST; BARBARA LEVINE, PhD

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The destination was Phoenix, rather than Paris, for Jerry Finley of Philadelphia and his family when they flew to a figure-skating convention last month. Finley had planned to attend with just his daughter, a champion ice skater, but the companion ticket enabled his wife, Sandra, to tag along. "My wife and daughter's tickets cost a total of $471 round-trip. That kind of nonstop can cost from $900 to $1,200 for each ticket," he says. Finley's two-for-one deal came from a special offer to USAir frequent fliers.

FIRST CLASS
ECONOMY

One of the most popular programs is Southwest Airlines' Friends Fly Free, which started in 1991. It is now marketed in all of the 45 U.S. cities Southwest serves. And it pushed American, Continental, Delta, America West, and other carriers to offer similar packages on many routes where they compete with Southwest and even on some where they don't.

LET'S MAKE A DEAL. For example, you and a friend can buy a round-trip ticket between Chicago and Houston on Southwest—as well as on American and Continental—for a total of $458, a $238 savings off the 7-day advance peak fare and $66 off the 21-day price. Southwest also offers round-trip tickets for two from Chicago to Seattle for $748 and Los Angeles to Phoenix for $138. Without a companion plan, airfare for two between the Windy City and Seattle can cost more than $1,000. A pair of individual tickets between L. A. and Phoenix adds up to almost $250, even when bought seven days in advance.

That doesn't mean a companion fare is always the best choice. Sometimes it pays to buy two separate deep-discount tickets, although that may mean a longer advance purchase requirement. American offers a companion rate of $538 between Chicago and Phoenix. But if you buy two tickets at least seven days in advance, the same flights can cost $376.

You may, however, have to do extra work to find a two-for-one deal. "Companion fares come and go quickly, so they might not come up right away in the computer," says Ivonne Vega, an agent with World Travel in Washington, D. C. "Urge your travel agent to do a bit of investigating or to call the airline."

When it comes to flying overseas, two-for-one options are limited. But that could change later this summer, when business travel slackens and international carriers are anxious to fill seats, especially in first and business classes. Right now, if you buy a business class ticket from Lufthansa using an American Express Platinum Card, you can get a free companion pass. As for the Concorde deal, it still doesn't come cheap. A companion ticket costs $8,310—$4,466 less than the usual price, but enough for 10 round-trip coach tickets on regular flights. *Nelson Schwartz*

Doubling Up For Savings

Airlines offer a variety of domestic and international companion fares. Some current deals:

CARRIER/PLAN NAME	DEALS
SOUTHWEST AIRLINES **Friends Fly Free**	Buy Baltimore-to-San Francisco tickets for two for $798 round-trip; regular fare for two separate seven-day advance purchase tickets is $1,376 round-trip. *Savings:* $578.
DELTA **Family Plan Fares**	If you purchase one round-trip ticket from Salt Lake City to Seattle for $198, you can buy up to seven more for $98 each. *Savings:* up to $700.
AIR FRANCE **Concorde Companion Fare**	Two people can fly New York to Paris on the supersonic Concorde for $8,310 round-trip. Buying two separate tickets would cost $12,776. *Savings:* $4,466.

DATA: AIRLINES, BUSINESS WEEK

WORTH NOTING

RETIREMENT TIPS. The American Institute of Certified Public Accountants is offering a $2.50 booklet, *Saving for a Secure Retirement: How to Use Your Company's 401(k) Plan.* Call 800 862-4272 and ask for Publication 059516.

AUTO SAFETY. If you're shopping for new wheels, the Transportation Dept.'s free brochure, *Buying a Safer Car,* gives the lowdown on safety features, crash-test results, and theft potential of nearly 200 cars, trucks, and vans for 1995. Write: Consumer Information Center, Dept. 501B, Pueblo, Colo. 81009.

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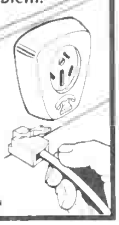

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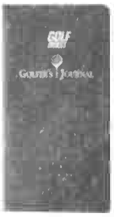

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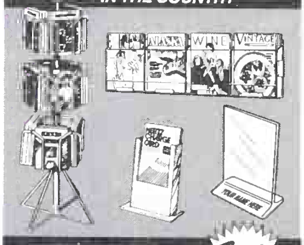

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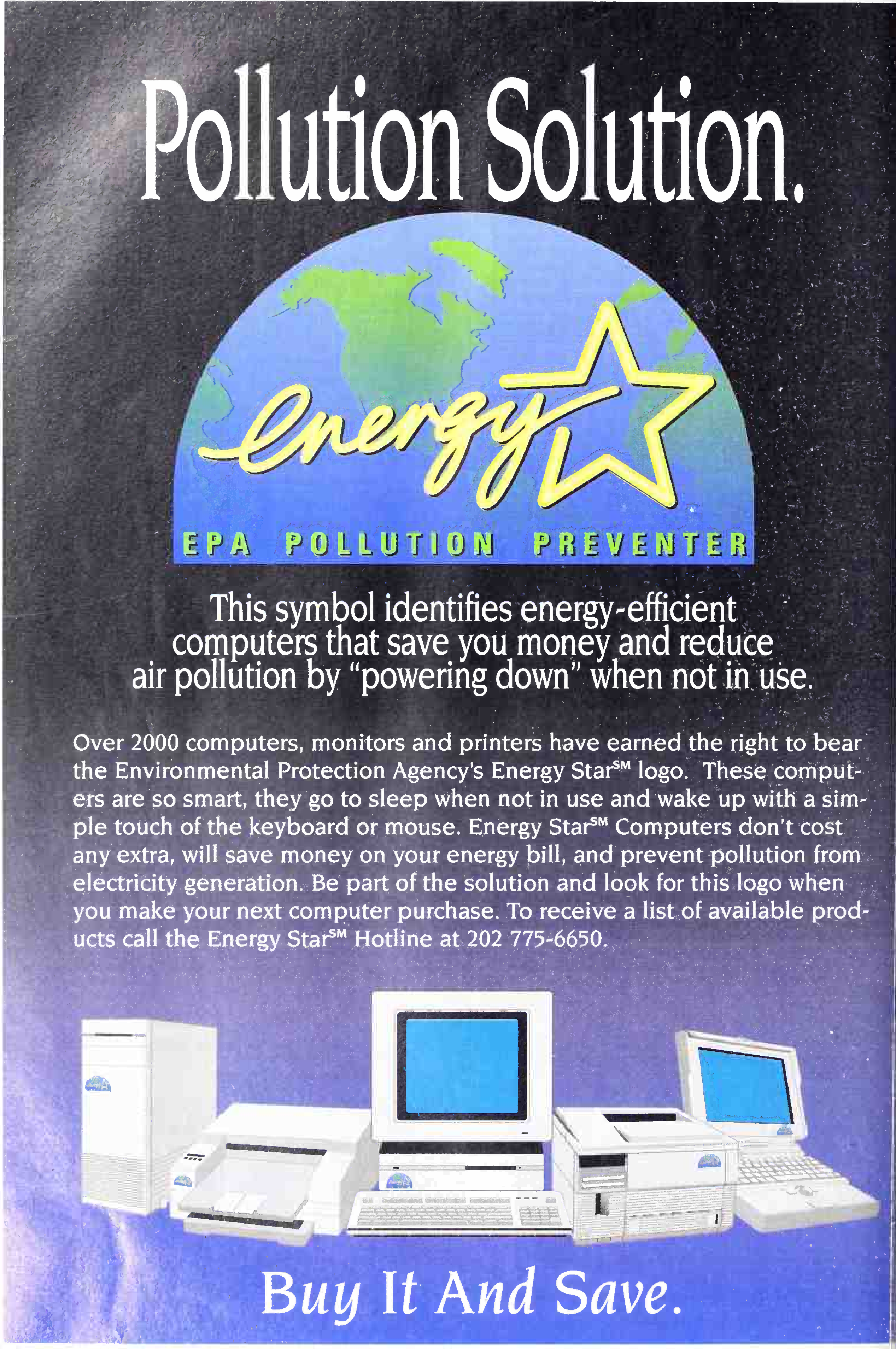

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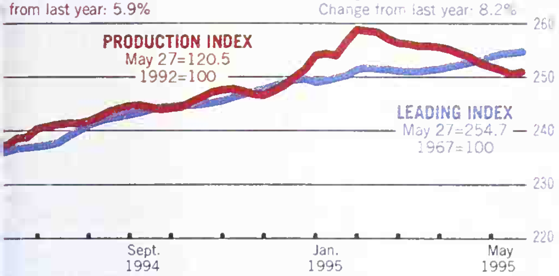
siness Week Index

CTION AND LEADING INDEXES

from last week: 0.2%
from last year: 5.9%

Change from last week: 0.1%
Change from last year: 8.2%



are 4-week moving averages

ction **index** was little changed in the week ended May 27. Before
n of the four-week moving average, the index rose to 121.5, from
ebounds in the seasonally adjusted output of autos, trucks, and rail
lped to lift the index.

ng **index** also was hardly higher in the latest week. The unaveraged
to 254.6, from 254.3. Rising stock prices and faster growth in M2
ing better growth ahead.

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NG INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
RICES (6/2) S&P 500	530.75	526.62	15.9
TE BOND YIELD, Aaa (6/2)	7.33%	7.51%	-7.9
IAL MATERIALS PRICES (6/2)	114.1	113.9	NA*
S FAILURES (5/26)	NA	NA	NA
TATE LOANS (5/24) billions	$477.7	$477.3	11.7
UPPLY, M2 (5/22) billions	$3,624.6	$3,617.1r	1.3
LAIMS, UNEMPLOYMENT (5/20) thous.	380	367	3.8

Center for International Business Cycle Research (CIBCR), Standard &
ody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures
mpanies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on
ilures and real estate loans. *Historical data available from CIBCR.

EST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FUNDS (6/6)	5.96%	6.07%	4.13%
CIAL PAPER (6/6) 3-month	5.87	6.02	4.52
ATES OF DEPOSIT (6/7) 3-month	5.86	5.96	4.43
IRTGAGE (6/2) 30-year	7.89	8.04	8.69
BLE MORTGAGE (6/2) one-year	5.95	6.03	5.54
7)	9.00	9.00	7.25

Federal Reserve, HSH Associates, Reuters Holdings PLC

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (6/3) thous. of net tons	1,925	1,909#	3.6
AUTOS (6/3) units	97,574	131,170r#	-15.0
TRUCKS (6/3) units	81,196	114,689r#	-16.5
ELECTRIC POWER (6/3) millions of kilowatt-hrs.	58,336	58,283#	1.8
CRUDE-OIL REFINING (6/3) thous. of bbl./day	14,536	14,532#	2.3
COAL (5/27) thous. of net tons	19,157#	19,038	-4.0
PAPERBOARD (5/27) thous. of tons	947.5#	937.8r	8.7
PAPER (5/27) thous. of tons	836.0#	830.0r	2.5
LUMBER (5/27) millions of ft.	415.0#	431.2	-14.4
RAIL FREIGHT (5/27) billions of ton-miles	23.6#	23.7	0.9

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (6/7) $/troy oz.	385.900	384.300	1.2
STEEL SCRAP (6/6) #1 heavy, $/ton	141.50	142.50	26.9
COPPER (6/3) ¢/lb.	136.8	135.5	28.5
ALUMINUM (6/3) ¢/lb.	87.0	87.0	35.9
COTTON (6/3) strict low middling 1-1/16 in., ¢/lb.	108.86	108.57	36.9
OIL (6/6) $/bbl.	19.14	18.78	4.3

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (6/7)	84.40	84.43	104.05
GERMAN MARK (6/7)	1.41	1.41	1.67
BRITISH POUND (6/7)	1.59	1.59	1.51
FRENCH FRANC (6/7)	4.95	4.96	5.68
ITALIAN LIRA (6/7)	1638.5	1639.5	1613.5
CANADIAN DOLLAR (6/7)	1.38	1.37	1.37
MEXICAN PESO (6/7)[3]	6.085	6.153	3.348

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

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in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

E WEEK AHEAD

ALES

June 13, 8:30 a.m. ▶ Retail sales
ose 0.5% in May, says the medi-
t of economists surveyed by MMS
nal, one of the McGraw-Hill Cos.
gested by the rebound in motor
ales and the positive reports from
ilers. In April, sales took an unex-
p of 0.4%, as purchases of dur-
s fell 1.5%.

R PRICE INDEX

June 13, 8:30 a.m. ▶ Consumer
ly grew by 0.3% in May, after
0.4% in April. Transportation
m auto-financing charges to air-
s—were up strongly in March and April, but their gains probably moderated in May. Excluding food and energy, May core prices are also expected to rise 0.3%, after a 0.4% advance in April.

BUSINESS INVENTORIES

Wednesday, June 14, 10 a.m. ▶ Inventories at manufacturers, wholesalers, and retailers likely grew 0.7% in April, the same hefty increase as in March. Factories and wholesalers have already reported large rises in their stock levels. The expected increase suggests that businesses have not adjusted their inventories to fall into better alignment with sales. Indeed, business sales probably fell by 0.6% in April, after no change in March.

INDUSTRIAL PRODUCTION

Thursday, June 15, 9:15 a.m. ▶ Output at factories, mines, and utilities probably fell another steep 0.4% in May, on top of a 0.3% drop in April. That's suggested by the decline in factory jobs and overtime. Auto makers are leading the cutbacks in spring production. Motor vehicle output alone fell 4.3% in April. Given the output drop, the average capacity utilization rate for all industry likely dipped to 83.7% in May, from 84.1%. With production dropping off so fiercely, economists are predicting little growth in the second quarter. The MMS survey shows a median forecast of only 1% growth in the real gross domestic product in the second quarter.

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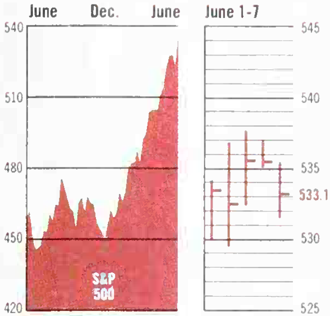
estment Figures of the Week

ARY

n-expected employment
d fears that the eco-
lown might turn into a
hat sent the bond mar-
uying frenzy. On June 2,
the 30-year U. S.
nd fell to 6.5%, the
in 15 months. Stocks
first, but the Dow Jones
allied back to 4485 on
worth noting was the
rmance of mid-cap and
tocks. Both sectors
aggards in this year's

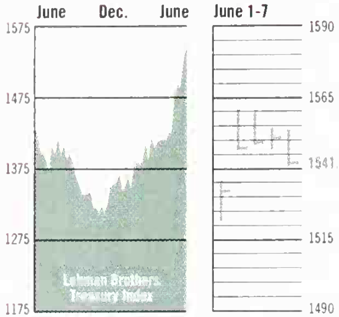
STOCKS



52-week change
+16.6%

1-week change
−0.1%

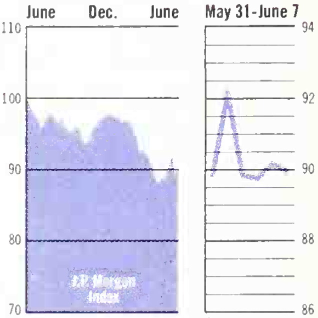
BONDS



52-week change
+7.8%

1-week change
+1.0%

THE DOLLAR



52-week change
−1.3%

1-week change
+0.1%

T ANALYSIS

KS	Latest	% change Week	% change 52-week
INDUSTRIALS	4462.0	−0.1	19.0
MPANIES (S&P MidCap Index)	192.5	1.4	12.6
'ANIES (Russell 2000)	274.8	1.7	10.0
IES (Russell 3000)	303.2	0.4	15.1

TOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
IANCIAL TIMES 100)	3370.8	1.5	10.9
EI INDEX)	15,679.6	1.6	−26.3
E COMPOSITE)	4476.3	0.6	6.5

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.76%	5.80%	4.21%
30-YEAR TREASURY BOND YIELD	6.55%	6.65%	7.28%
S&P 500 DIVIDEND YIELD	2.51%	2.51%	2.77%
S&P 500 PRICE/EARNINGS RATIO	16.4	16.4	20.1

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	481.0	479.3	Positive
Stocks above 200-day moving average	73.0%	70.0%r	Negative
Speculative sentiment: Put/call ratio	0.61	0.71	Neutral
Insider sentiment: Vickers sell/buy ratio	1.17	1.23	Positive

BLOOMBERG FINANCIAL MARKETS

RY GROUPS

H LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
LOING	16.4	10.8	PULTE	29.0	23.6	29½
TURED HOUSING	15.3	5.7	FLEETWOOD ENTERPRISES	18.7	9.2	22¼
ID GLASS CONTAINERS	15.0	30.7	CROWN CORK & SEAL	17.8	36.3	49¾
	12.8	−22.8	U.S. HEALTHCARE	13.3	−20.3	32
ILES	11.6	−0.9	FORO MOTOR	13.2	5.5	30

H LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
TIME	−10.3	−11.0	BRUNSWICK	−14.7	−22.6	18⅞
NO MOTELS	−4.4	21.3	HILTON HOTELS	−13.7	24.1	67
TOOLS	−4.2	−0.8	CINCINNATI MILACRON	−4.6	22.9	26⅛
QUIPMENT AND SUPPLIES	−3.8	6.8	XEROX	−9.3	7.0	111
;	−3.4	−26.8	CONSOLIDATED FREIGHTWAYS	−9.0	−9.0	22¾

L FUNDS

MORNINGSTAR INC.

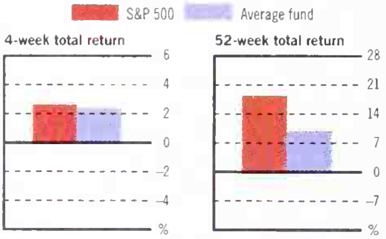
otal return	%
IAN GROWTH SELECT	14.6
STANLEY ASIAN GROWTH A	13.4
FLIGHT CHINA & HONG KONG	13.3

al return	%
COMMUNICATIONS & INFORM. A	71.8
OPPORTUNITY	58.5
ERICAN TECHNOLOGY A	56.1

LAGGARDS

Four-week total return	%
AMERICAN HERITAGE	−11.3
JAPAN	−10.2
WARBURG PINCUS JAPAN OTC COMMON	−10.1

52-week total return	%
AMERICAN HERITAGE	−38.9
STEAOMAN AMERICAN INDUSTRY	−35.1
MONITRENO GOLD	−34.3



VE PORTFOLIOS

DRI/McGRAW-HILL

nts represent the
e of $10,000
year ago
folio

s indicate
al returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$12,049	$11,643	$11,283	$10,525	$10,097
+2.29%	+2.03%	−0.90%	+0.16%	−0.40%

page are as of market close Wednesday, June 7, 1995, unless otherwise indicated. ups include S&P 500 companies only; performance and share prices are as of market close June 6. Mutual fund returns are as of June 2. Relative portfolios are valued as of June 6. A more detailed explanation of this page is available on request. r=revised NA=Not available

CENTRAL BANKS SHOULD TAKE IT EASIER

A global economic slowdown is under way, and it doesn't look like anything the world has recently seen. New structural forces are shaping the slide—forces that monetary policymakers in the U.S., Japan, and Germany should be extremely sensitive to in the months ahead.

There is no reason yet to believe recession is on the way. But policymakers around the world should admit that 1995 is not turning out as well as expected. Rates of growth are dropping everywhere. The second quarter in the U.S. is coming in feebler than anticipated. Around the Pacific Rim, from Singapore to China, economies are throttling back. Japan is teetering on recession. Mexico is still in shock. And much of Latin America is in recession. German manufacturers are hitting a brick wall. And Europe's expansion is stalling out. These disappointments may be symptoms of a deflation in the global economy that policymakers are missing.

This unusual synchronous slowdown suggests that forces beyond the normal economic cycle are at work. Japan, for example, is in its fifth year of a deflationary dive. A bureaucratic elite has been running a tight-money, mercantilist policy—resulting in low growth, an overvalued yen, a looming banking crisis, rising unemployment, and a hollowing-out of manufacturing. Meanwhile, a weak and divided political system offers no guidance.

Similar problems plague Germany and the rest of Europe. A soaring mark and the highest labor costs in the industrialized world are prompting German companies to engage in an investment boycott of their own country.

Powerful new forces are at work in the U.S. as w balanced-budget agreement will probably emerge a signed by the fall. Desirable as this may be in the long boosting savings and investment—the short-run imp deflationary. Today, one out of six working Americans government job. That may fall sharply in the years Just as defense cutbacks proved unexpectedly harsh, the transition to smaller government.

None of this argues for canceling the forecast of a back in the fourth quarter for the U.S. economy and b There are countervailing forces that can more than the negatives on the horizon. The galloping inflation '70s and '80s appears truly dead, thanks to global comp low-unit labor costs, and high real interest rates. Produ has jumped to a higher level thanks to new technolo porations are investing heavily in capital equipment capacity. Indeed, recent records in the stock market imply that investors are confident that corporate prof stay high.

But the current slowdown, particularly because it w expected, highlights the existence of deflationary ec reefs that can sink the global economy. In a world of deflation, running the proper monetary policy become important than ever. The message is clear. Up to this the Federal Reserve, the Bank of Japan, and the G Central Bank have erred on the side of restraint. months ahead, all three central banks should consider on the side of ease.

A BETTER U.S. BUDGET COMPROMISE

As House and Senate budget committees begin summer-long discussions on a balanced-budget compromise, one fact stands out: There is an economically rational way to balance the budget and a political way. Cutting taxes while trying to cut government spending doesn't make a lot of macroeconomic sense—if balancing the budget is really the goal. Better to go with Senators Pete V. Domenici (R-N.M.) and Bob Packwood (R-Ore.), who would first take the pain of balancing the budget and then cut taxes. But given demands by congressional conservatives to "give something back" to voters—for the pain and suffering of having entitlements chopped—tax cuts are going to be part of the budget package whether or not they make economic sense.

The goal, then, of the congressional conferees should be to offer up as small a tax cut as politically feasible. The simplest and most equitable way to do that is to lower the income level of families eligible for the proposed $500 tax credit. In the House budget proposal, couples earning $200,000 could (incredibly) receive the credit. This would cost the government approximately $160 billion over seven years. However, a more equitable and reasonable step is to limit the family cr those making just $50,000 a year. Dropping eligibility d that level cuts the cost of the tax break virtually in ha is a more modest political price to pay for passage of e fiscal legislation.

As for the other major cut in the works, capital-gai economists have been fighting for decades over its e Short term, it appears to generate more investment term, the impact gets cloudy. Politically, a cut in capita appears to be a *sine qua non* of a balanced-budget deal it. The best kind of capital-gains tax cut would go for not past, investments in capital improvements. That cost a mere fraction of the House bill that comes to $7 over seven years.

If Washington blows this chance to get its fiscal h order, the penalty will be severe. Balancing the feder get, finally, is critical to boosting savings and invest America. Making unwise tax cuts based on political rea a price that probably has to be paid. But they must to a minimum.

AN FIXING THE BANKING MESS **POLITICS** NEWT GINGRICH'S CORPORATE COTERIE **ANTITRUST** TROUBLES AT TICKETMASTER

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BusinessWeek

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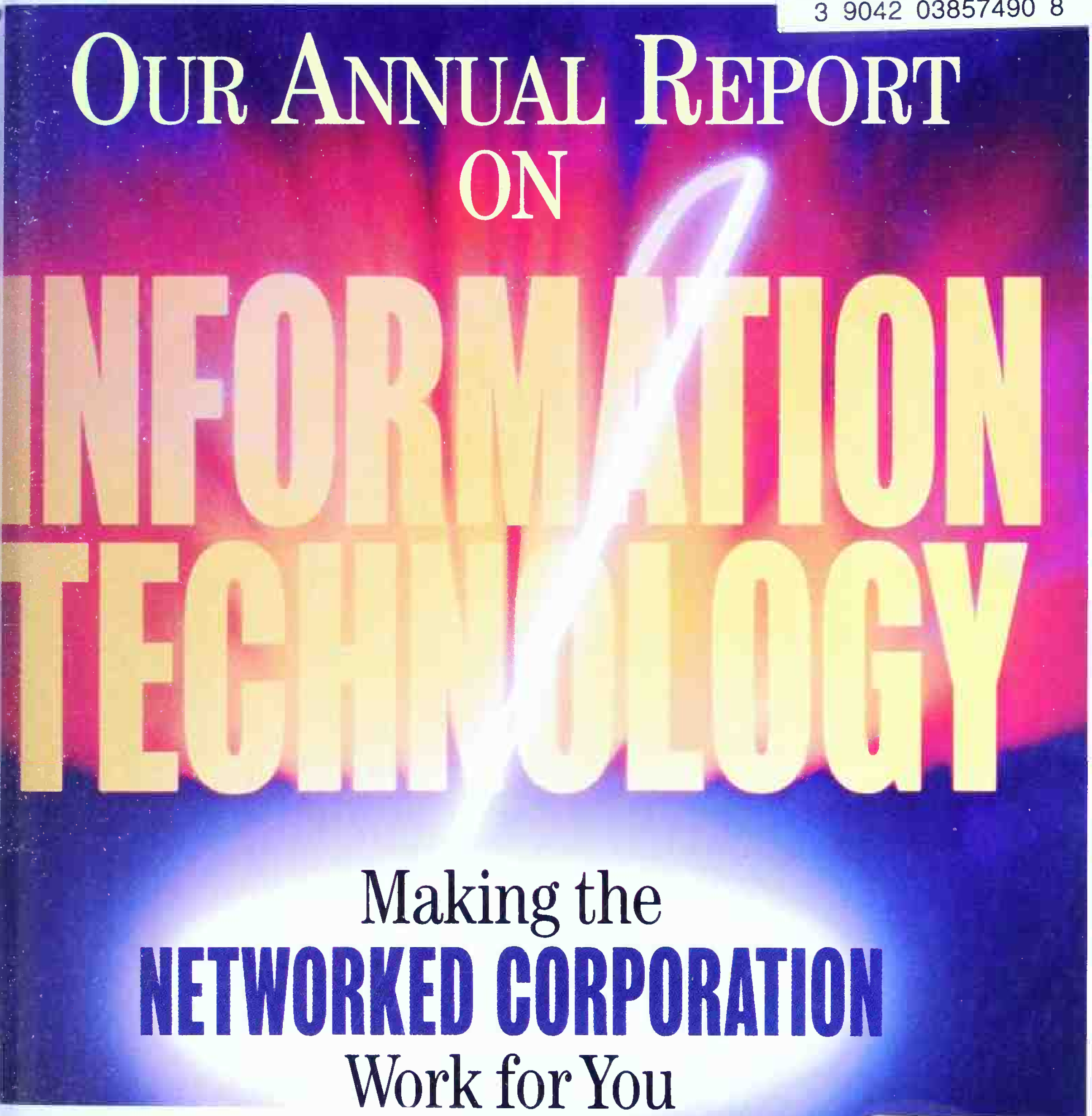

OUR ANNUAL REPORT ON INFORMATION TECHNOLOGY

Making the NETWORKED CORPORATION Work for You

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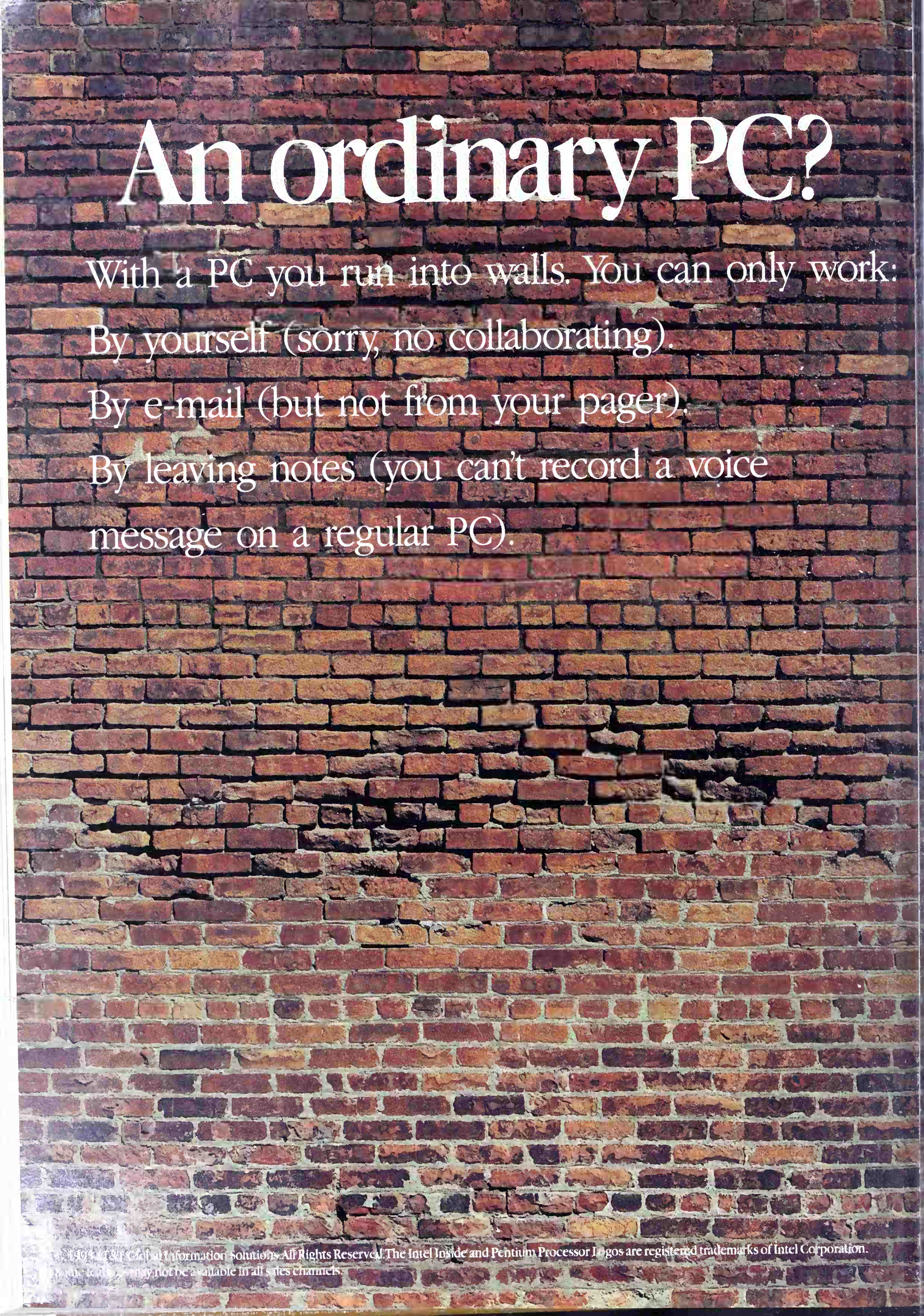

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By leaving notes (you can't record a voice message on a regular PC).

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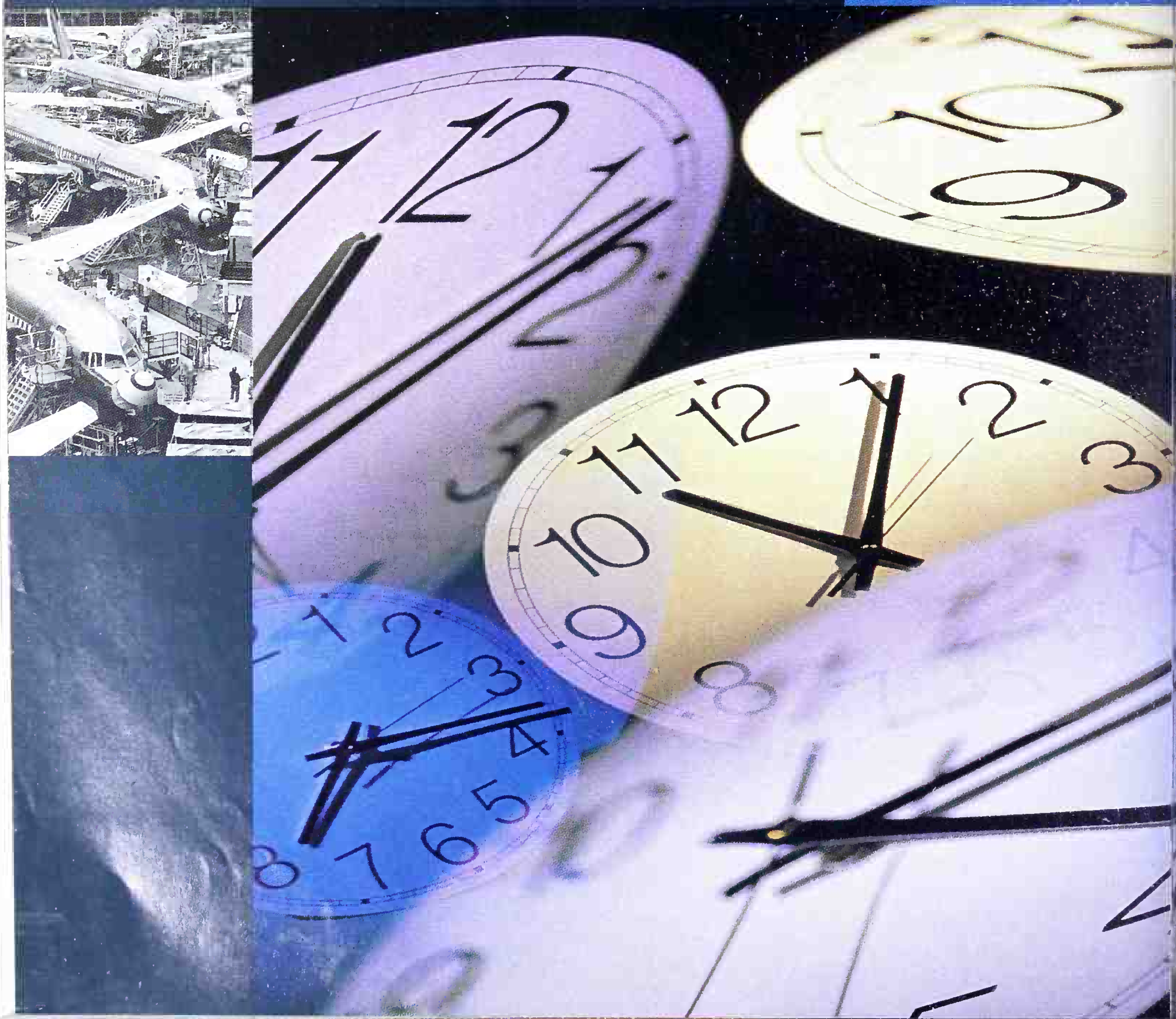
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BusinessWeek
JUNE 26, 1995
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ANNUAL REP

INFORMA
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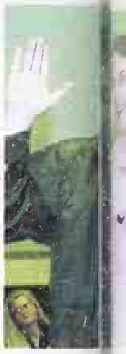

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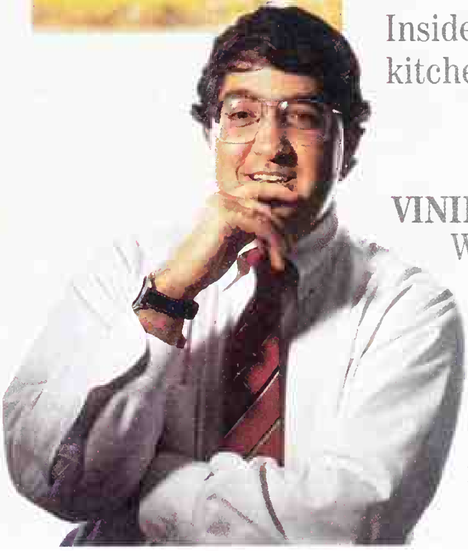

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

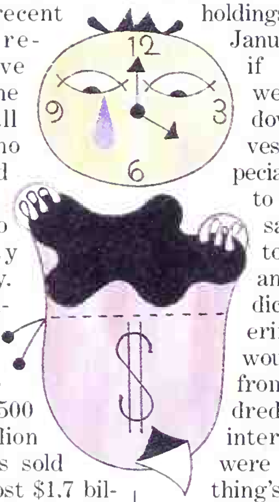
MUNI MADNESS

DID ORANGE COUNTY SELL TOO SOON?

OOPS, TOO LATE. IF ORANGE County had hung on to its battered investment pool last winter, the recent bond market rebound might have saved it. That's the talk among Wall Street types, who figure the fund would be healthy enough today to let the county avoid bankruptcy.

Various estimates say the county's portfolio now would be worth some $500 million to $1 billion more than it was sold for. The county lost $1.7 billion off face value in a fire sale. "They would not have gotten as slaughtered as they did," says Marilyn Cohen, president of Envision Capital, a Los Angeles investment adviser.

Could the county have hung on? Christopher Varelas of Salomon Brothers, the firm hired to sell the county's holdings, argues that in January no one knew if interest rates were headed up or down. The pool's investors—schools, especially—were unable to run the risk, he says. "We decided to close the casino and put away the dice." Plus, weathering the storm would have been far from cheap. Hundreds of millions in interest payments were falling due. One thing's sure: Whoever bought the county's investment instruments has done splendidly. *Nanette Byrnes*



SMALL BIZ

BILL CLINTON: EXILE ON MAIN STREET

TO BE ELIMINATED

GORE: *Piles of axed regs*

THE PRESIDENT'S WOOING OF small business is drawing a tepid response. Oh, Bill Clinton and Vice-President Al Gore got an outwardly enthusiastic reception from some 2,000 delegates at the White House Conference on Small Business by displaying 16,000 pages of government regs being axed. Example: How to cut string beans.

But most of the entrepreneurs were doubtful of his commitment. Why? Consider the Clinton-backed family-leave law, which allows workers to take time off for nursing sick relatives and other obligations. Small-business owners say this strains their limited resources. Then there's the Administration's proposal to up the minimum wage 90¢, to $5.15 per hour. That upsets small-biz folks, even though the GOP Congress likely will block it. Fred Ahle, who runs a Longview (Tex.) printing operation, says this would stop his hiring more workers. Worse, conference-goers still resented Clinton's ill-fated health plan, requiring them to pay for workers. *Amy Barrett*

TALK SHOW "There are legal considerations, and the
there are political considerations."

—*Renato Ruggiero, chief of the new World Trade Organizatio*
ing to avoid the no-win task of ruling on the U.S.-Japan trade

HONCHOS

MANZI LOOKS LIKE AN ODD MAN OUT

DON'T BET THAT JIM MANZI will be part of the IBM inner circle. Sure, much has been made of the shocker that he will stay on to run Lotus after IBM's $3.5 billion buyout. Manzi, who is getting an estimated $77 million windfall from the deal, had been widely expected to bolt. Instead, Manzi will stay on without a contract and become an IBM senior vice-president, reporti
Chairman Lou Gerstn

LONELY? *A windfall, but...*

Gerstner may be
interested in keeping
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insiders say Manzi wil
some strategic issues
to Gerstner, but
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Thompson, the seni
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won't belong to the
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tive Committee, wh
cludes almost all IBM
vice-presidents and
directly with Gerst
major strategy and p
"He's not on the CEC
says something," not
IBM manager. So far, M
also not on the 34-m
Worldwide Executive
cil, which is not as ex
as the CEC but still is
tant. Neither IBM nor
would comment. *Ira*

STREET NEWS

SALOMON MAY HAVE ROOM AT THE TOP

EXECUTIVES AT SALOMON Brothers say it looks as if CEO Deryck Maughan may soon be history. "I just don't think he can survive," says a senior Salomon exec. Signaling discontent at the firm is a talent exodus, which hasn't been stemmed by ditching a controversial pay plan.

And another bad sign for Maughan is that Robert Denham, head of parent Salomon Inc., for the first time is getting more involved in Salomon Brothers matters, such as attending meetings with traders. This "certainly undercuts Deryck," says one executive. The rumor mill picked up steam re-
cently when staffers s
Mark Winkelman, a li
partner at Goldman Sa
the building. Winkelma
well-regarded trader
manager who stepped
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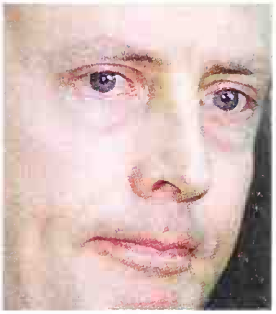

MAUGHAN: *A goner?*

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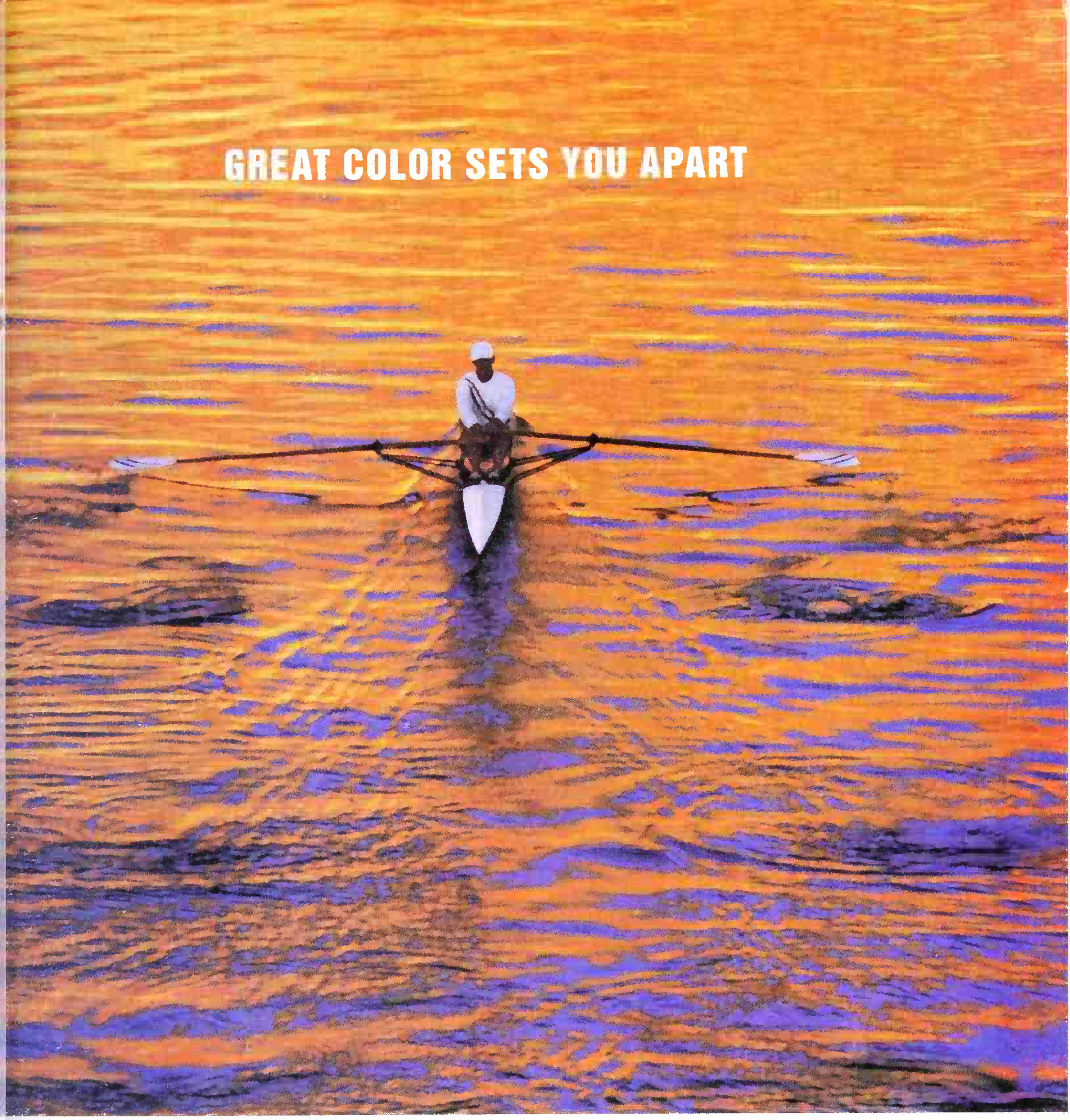
prietary trader. Says
ham: "Deryck Maugh
running Salomon Bro
Anything else is i
nation." *Leah Nathans*

(CLOCKWISE FROM LEFT) ILLUSTRATION BY [illegible] SABA, MARCY NIGHSWANDER/AP/WIDE WORLD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Up Front

BALLPARK FIGURES

SKIP THE PEANUTS AND CRACKER JACK

YOU THINK THAT BALLPARK attendance is bad? The concessions biz is even worse. Turnout for America's once favorite pastime is down, in most places, as much as 25% from last season. Hot dogs, peanuts, beer, and soda are all off 50% or more, according to a BUSINESS WEEK spot check of parks.

2.85
Kahn's HOT DOGS

FULL PRICE: *Vendors' sales are way down*

Lower attendance, brought on by fans' bitterness over the baseball strike, is only part of the reason. Another factor: the changed post-strike crowd mix. Analysts say the fans who do show up—thrifty old people, for instance—may be more sales-resistant to pricey stadium fare. Bobby Calder, a Northwestern B-school professor, speculates that families with kids, who clamor for treats, are staying away. Plus the long absence from ballparks may have produced sticker shock.

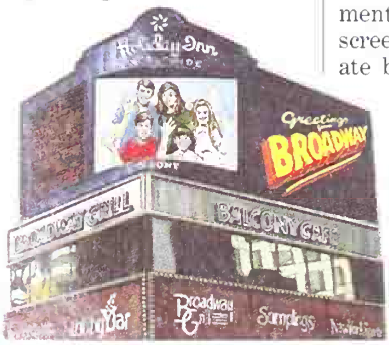
This stuff ain't cheap. Example: Ogden Services, the vendor at parks in Philadelphia, Seattle, and Anaheim, Calif., charges $3 for a large soda. At McDonald's, it's half that.

The prices are no higher than last year, but why not try temporary discounts, as some teams have done with tickets? Few concessionaires even considered this. They figure attendance will bounce back later in the season. That's why Kahn's hot dogs, which were peddled for half off in May at New York's Shea Stadium, just went back to full price. *Ann Therese Palmer*

CITY LIFE

ATTACK OF THE 22-FOOT TOURISTS

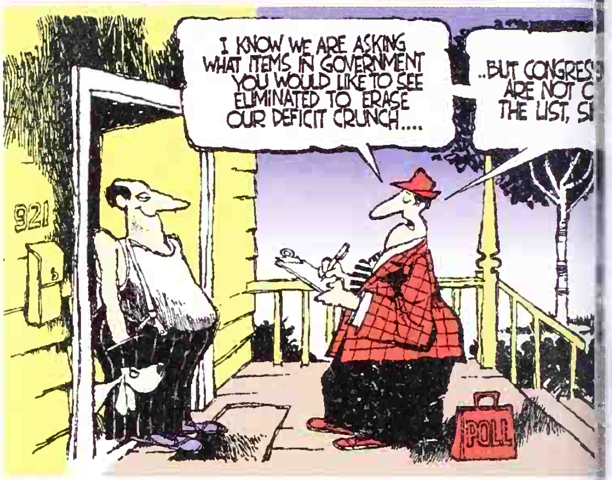
A NOVEL INTERACTIVE SIGN is about to open on the Great White Way. Holiday Inn intends to unveil a 100-foot-high megabillboard at its Crowne Plaza hotel in Manhattan's Times Square later this year. It will include a 22-foot-high by 30-plus-foot-wide TV screen, called a "jumbotron," that will beam greetings from passersby.



BIG HELLO: *Hard-to-miss greetings*

Tourists paying around $10 to $15 a shot will videotape a minute-long greeting. Moments later—after a prescreening for any inappropriate behavior—the video will air on the jumbotron for all Times Square to see. Holiday Inn will also sell people postcards of themselves on-screen, as well as copies of the tapes. The sign's proceeds will be funneled to charities through the soon-to-be-created Holiday Inn Foundation. But don't think that this gimmick is all fun and philanthropy. The huge billboard will likely sport the Holiday Inn reservations number. *Maria Mallory*

DRAWN & QUARTERED


I KNOW WE ARE ASKING WHAT ITEMS IN GOVERNMENT YOU WOULD LIKE TO SEE ELIMINATED TO ERASE OUR DEFICIT CRUNCH....
..BUT CONGRES ARE NOT C THE LIST, SI
921
POLL

CONFESSIONS

BEN & JERRY TELL ON THEMSELVES

BAD BEN, BAD JERRY. DID YOU know that Ben & Jerry's Rainforest Crunch does little to help the Brazilian Indians, as claimed? Or that the garbage generated from throwing away empty Ben & Jerry's ice-cream containers amounted to an eco-unfriendly 15,550 cubic yards last year? How about that the number of Ben & Jerry's employees who are thinking about quitting doubled in 1994, to 38%?

No, these aren't damaging facts dredged up by Häagen-Dazs—they came from Ben
& Jerry's just-released
annual report. It includ
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by an outside consultant,
Hawken. This time, the
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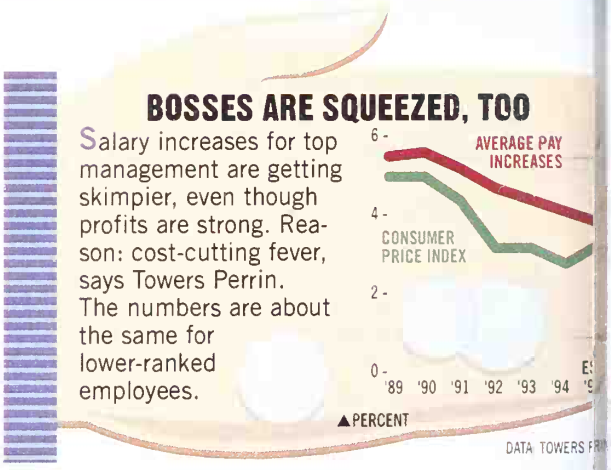
& Jerry's "must, when
possible, eliminate que
able claims" in its labels
that, guys? *Mark Mare*

THE BIG PICTURE



BOSSES ARE SQUEEZED, TOO

Salary increases for top management are getting skimpier, even though profits are strong. Reason: cost-cutting fever, says Towers Perrin. The numbers are about the same for lower-ranked employees.

DATA: TOWERS PER

FOOTNOTES Sales increase in men's big-and-tall apparel, 1994: 12%; in the overall menswear industry: 4%

[illegible] FROM [illegible] CARTOON BY LOCHER/CHICAGO TRIBUNE. ILLUSTRATION BY VICTORIA KANN. CHART BY RAY VELLA/BW

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DOCTORS CAN TEST
PEOPLE'S REFLEXES BY
APPING THEIR KNEES WITH
A SMALL RUBBER MALLET.

But how do you test a company's reflexes?

ompanies grow, it becomes harder for them to react quickly to new opportunities. To expand
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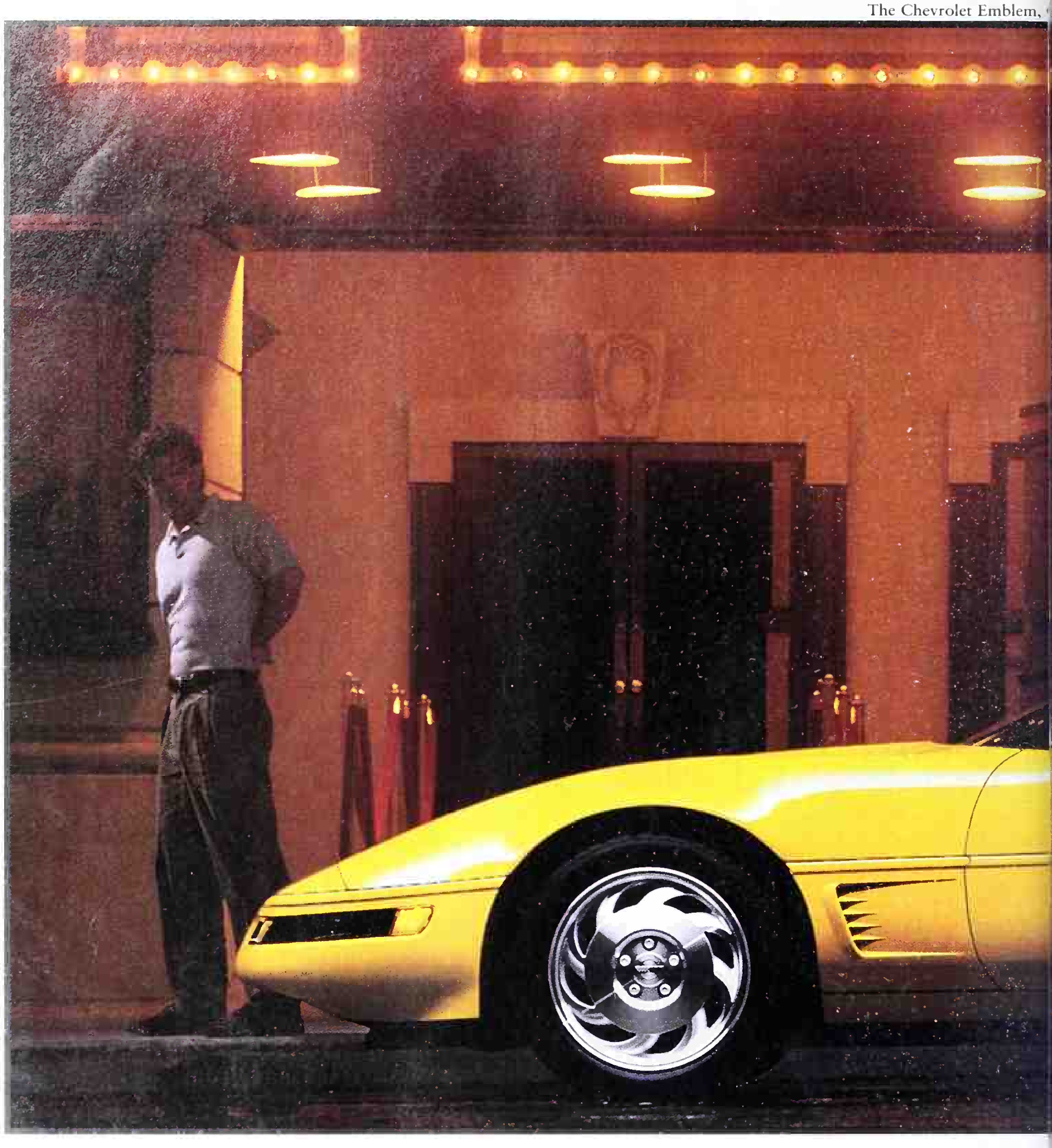
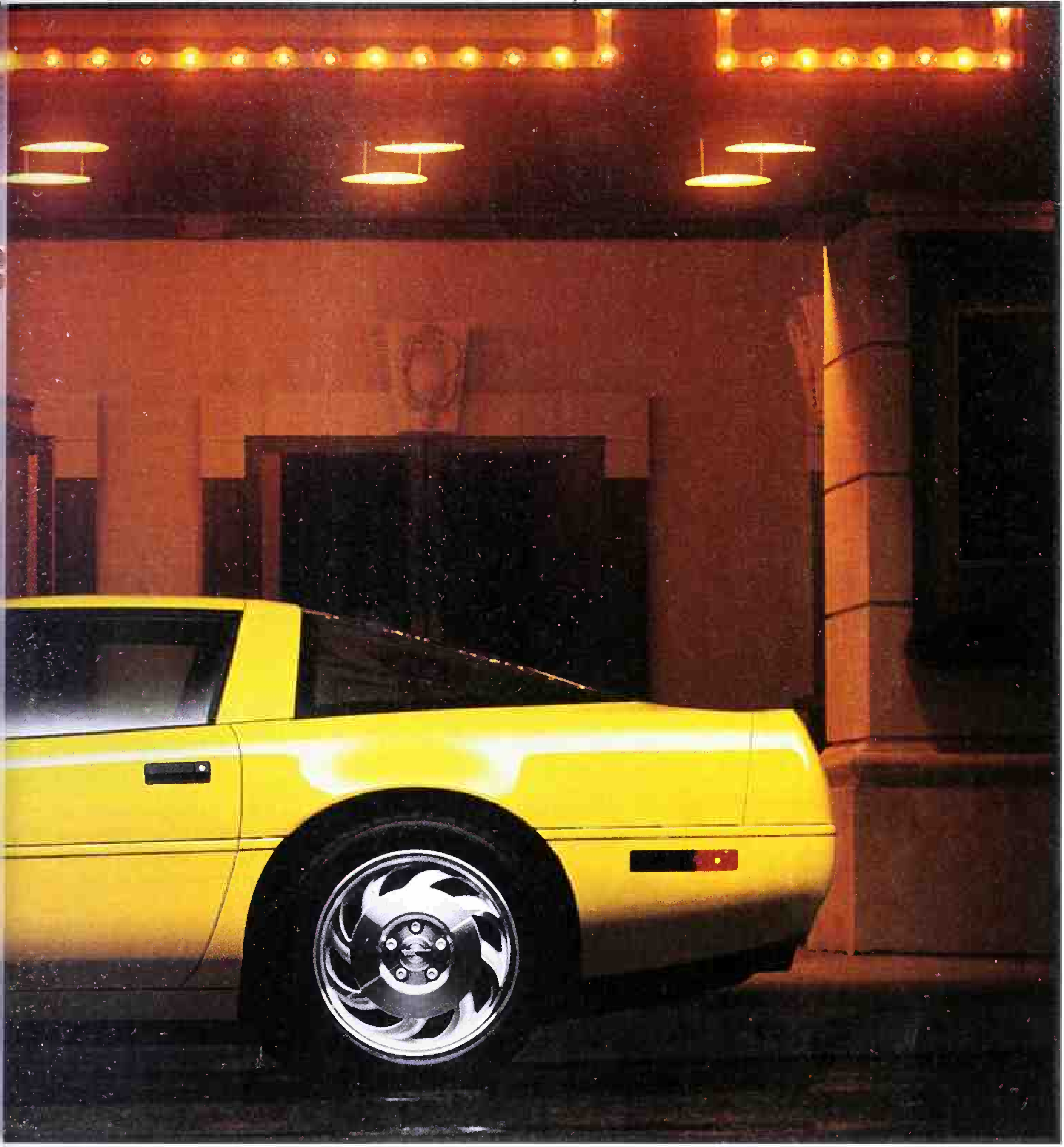


The average drea
This isn't yo

Chances are it began before you even had a license. That deep-rooted yearning for one to your own. And while most of your nocturnal fantasies have come and gone over the years, thi seems to reappear every time you turn out the bedroom light – with its door open and engine ning. Well, you're not alone. Because for more than 40 years, people have been losing sleep ov Corvettes. And the 1995 'Vette is no exception – with a 300-horsepower 5.7L LT1 engine, A mblem are registered trademarks and Chevy is a trademark of the GM Corp. ©1995 GM Corp. All Rights Reserved. Buckle up, America.



ts 6.6 minutes.
erage dream.

on control, a six-speed manual transmission, and a sound system you could imagine only in
wildest dreams. Since we introduced the Corvette in 1953, over a million people have made
dream come true. And all it takes is a trip to your local Chevy dealer. So instead of spending
ner night dreaming of a Corvette, why not experience what it's really like to drive one.

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Readers Report

WRONG TURN ON THE I-WAY?

Regarding "Online investing" (Cover Story, June 5), communicating with analysts by telephone can be risky enough for management, but analysts on the Internet may well present an even greater and potentially more dangerous problem.

Even in cyberspace, companies are likely to be held responsible for updating and correcting any material information previously disclosed that is still considered "live" and which has become misleading. Moreover, although the Internet audience is presumably infinite, the courts and the Securities & Exchange Commission may view disclosures made here as "selective" because they are available only to the "wired" elite.

The vast and unfamiliar territory of the Internet is enough to send shivers down the backs of corporate securities counsel. Given the uncertainties regarding projections disclosed in traditional venues, the changed environment requires that companies be meticulously careful in navigating, or avoiding, the Internet.

Maryann A. Waryjas
Jenner & Block
Chicago

WINNERS: BEST PRODUCT DESIGN / CHINA'S NEW ELITE
BusinessWeek
ONLINE
INVESTING
BY GARY WEISS

TECHNOPHOBES' HURDL

"Most people still ca
program their VCR o
do more than reheat
coffee in a microwav
How can you expect
them to get a handle
on online services?"

Your story provided very little in the way of worthwhile information for any type of sophisticated online user. If the intention was to educate the masses about online services, forget it! Most people still can't program their VCR or do more than reheat coffee in a microwave. How can you expect them to get a handle on online services—except to make ill-informed investment decisions? If you go with a cover story, provide some meat along with the bones.

Lawrence M. Stern
New York
Sterno13@aol.com

Gary Weiss's article on online i
ing, and particularly the caption, m
resented my relationship with the
panies that I write about, ther
unfairly raising questions about my
ability. I would like to make the fo
ing points: (a) *Hot Stocks Whisper*
Confidential are solely supporte
subscribers and not by any comp
(b) *Hot Stocks Review* and *Whispe*
Confidential are different publica
(c) *Hot Stocks Review* is mostly
posed of *Whispers* in terms of
bulk and daily activity. (d) I ad
subscribers in late January to take
profits on Luminart when the stoc
at $9.75 (Canadian)—it peake
$10.125 and then crashed. (e) I
written about three Canadian ove
counter stocks out of more tha
stocks I have reviewed over the
year. (f) The dough does *not* keep r
in from companies, and the bulk
money comes from subscribers.

George Che
Clearwater
Chelekis

Editor's note: Chelekis' descriptio
the newsletters' relationships do no
tradict the story. The Canadian
the-counter issues mentioned in th
ry refer to those trading in the

The reason why Wall Street
shun the Net is that their franch
selling analysts' research to Jo
Public—is now technologically obs
As an investor, I want real-tim

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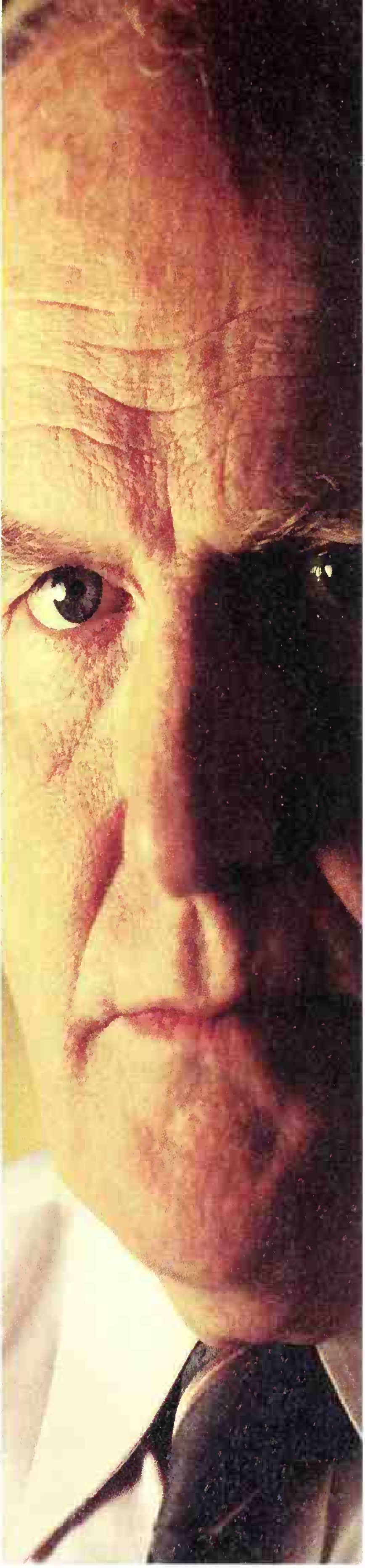

How do you measure productivity? Here's how Arthur D. Little, Inc., did it. They took two groups of comparably skilled computer users. Sat one group down at Macintosh® PCs. The other at PCs running Windows. They asked all those people to perform identical business tasks. Then they measured the time it took to complete each task. And how accurately it was performed. Their findings? People using the Macintosh were 44% faster than people using Windows. Forty-three percent more accurate, too.[*] Think that's impressive? Imagine if the people using Macintosh had been using Power Macintosh™ PCs instead – they're up to 92% faster than PCs based on Pentium processors.[†] Get information by fax at 800-901-8105. Or visit us on the Net at http://www.apple.com. And discover the power only a Macintosh can deliver. The power to be your best.®

*Productivity comparison: Macintosh versus Windows study by Arthur D. Little, Inc., January 1994. †February 1995 Ingram Labs study, "A Performance Comparison: Apple Power Macintosh Computers vs. Intel Pentium Processor-Based Computers Running Windows." © 1995 Apple Computer, Inc. All rights reserved. Apple, the Apple logo, Macintosh and "The power to be your best" are registered trademarks of Apple Computer, Inc. Mac, the Mac OS logo and Power Macintosh are trademarks of Apple Computer, Inc. All Apple products are designed to be accessible to individuals with disability. To learn more (U.S. only), call 800-776-2333 or TDD 800-833-6223.

dates on positions I hold, not quarterly mumbo jumbo that the big dealers put out (usually as a favor to their corporate finance departments). I get this on the Net. As for George Chelekis, thanks to him, I've returned a meager 106% on my eight-month portfolio. Wish I had followed more of his picks.

Carson J. Wynne
Chicago
CWynneCdn@aol.com

THE WTO IS NOT THE BIG BAD WOLF

Regarding "Who's afraid of the World Trade Organization" (News: Analysis & Commentary, June 5) on the U.S.-Japan auto dispute: The WTO, like the General Agreement on Tariffs & Trade before it, is a pragmatic organization that favors negotiation over confrontation. The system will do the job designed for it by member governments. It will not "stall," since the procedure is now largely automatic, with clear deadlines at every stage. Yes, it could take more than a year to conclude all stages. But readers of BUSINESS WEEK know very well how much more time is involved getting civil-suit judgments in national courts.

David Woods
Information Director
World Trade Organization
Geneva

A REAL PLAYER IN COLLEGE MERCHANDISING

Even though the University of Nebraska is the national [football] champion, the University of Miami's licensing revenues rank higher, at $2.8 million for the year ending Mar. 31, 1995 ("Fight! Sell!" Up Front, May 22). You should also know that the expenses of running our program are probably the lowest in the country, so we bring virtually all of it to the bottom line.

David A. Lieberman
Senior Vice-President
for Business & Finance
University of Miami
Coral Gables, Fla.

WHY COMPANIES MUST CULTIVATE THE SOUL

Your article "Companies hit the road less traveled" (The Workplace, June 5) accurately describes the challenge of bringing more soul into the workplace.

Overlaying a specific set of spiritual values on people does not sit well with an American workforce that wants less governmental intrusion in its life and certainly doesn't want a manager telling anyone what to believe in. On the other hand, ignoring the subject altogether means businesses are blind to the bottom-line reality that people do want to find meaning in their work. They want to feel appreciated for their contribution, and they want a sense of community in their lives. A growing body of research shows that there is a direct correlation between the lack of soul or "heart" in a workplace and absenteeism, stress-related workers' compensation claims, and health-care costs. Soul is no longer soft.

Bruce Cryer
Institute of HeartMath
Boulder Creek, Calif.
BruceCryer@aol

CORRECTIONS & CLARIFICATIONS

In "Hang on: More surprises on the way" (Where to Invest: Mutual Funds, June 19), it was stated that Seligman Communications & Information Fund would close to new investors on July 15. The correct date is June 30.

A TRADEMARK IS NOT A PATENT

Nobody can patent a buzzword ("'Buzz off my buzzword,'" News: Analysis & Commentary, June 5). A word, phrase, or design attached to goods or services, whose function is to identify the source of those goods or services, may be eligible for trademark protection but can never be patented.

The distinction is not a trivial one. Patents have a limited term. A trademark, however, can last forever. As long as the mark is properly and continuously used in interstate commerce, the mark remains a valuable company asset indefinitely.

Joseph T. Leone
DeWitt, Ross & Stevens
Madison, Wis.

AN UNBALANCED VIEW OF TRADE

"Trade: Why the experts are wrong" (Editorials, June 5) suffers from an overdose of political correctness. In demonizing Japan as a mercantilist nation (surely news to the many U.S. and European companies doing business there) and in identifying the U.S. as the champion of free trade (see the U.S. Tariff Code—two volumes and 8,000-plus tariff rates), you endorse an exercise in blatant protectionism and an increasing xenophobia in the U.S. Further, you attack economic theory as saying nothing about causation in the case of low U.S. national savings rates, high budget deficits, excessive consumption, and the trade deficit.

The application of bilateral t
sanctions to Japan by the U.S. u
cuts the foundation of both the pre
GATT and present WTO. The correct
would have been to submit a ca
the WTO before, not after, annou
tariffs, risking a trade war, and u
cutting the WTO. Mixing domestic
ical motives with macroeconomi
never effective.

Carla Hills, where are you?

Stephen Jar
Lakewood,

In supporting the Clinton Adn
tration's hawkish trade policy, your
torial derides "experts" for insisting
the trade deficit is connected to th
U.S. savings rate. However, you
not be an expert to recognize tha
trade balance is equal to the differ
between savings and investment.
identity applies in all countries a
times, and its validity does not de
on any economic view.

Unfortunately, there is one me
nism that might allow trade poli
shrink the deficit. By forcing the
nese to consume more, the trade h
could directly reduce the supply of
anese capital available to the U.S.
would raise bond yields, encoura
rise in U.S. savings rates, and de
investment spending. The net r
would be a lower trade deficit. Th
plication is that the trade policies
you applaud can be effective only t
extent that they depress America
ing standards and economic grow
is not surprising that they find
support among "experts."

Gerard MacD
Managing E
Bank Credit An
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UMMERTIME—AND HE READING IS SERIOUS

et's see: I've got my towel, my sunscreen, my flip-flops, and of course that featherweight beach Whaaa—it's raining?

ll, maybe summer isn't just for ilers and private-eye stories. For days when you feel like settling with something substantial, here's pling of some recent, more serious backs.

e a vicarious peek through an on microscope—or through the st-powered telescope—via one of ear's many books on scientific top- arry Werth's **The Billion-Dollar ule: One Company's Quest for the t Drug** (Touchstone, $14) trains its n biotech startup Vertex Pharma- als Inc. There we see company er Joshua Boger and his team ing and taking risks to beat com- rs—and screaming, throwing furni- and getting sloshed when they fail. d at publicity given to a key rival, snarls: "I want to rub his nose in irt and step on his head." Cold ispassionate science? Not here.

The Hubble Wars: Astrophysics Astropolitics in the Two-Billion- Struggle Over the Hubble Space ope (Harper Perennial, $15), Eric aisson likewise delivers a tale of leas and petty striving. The au- a former senior scientist at the rtium of universities put together ersee the space telescope's agenda, s NASA for its addiction to "pure, ulterated hype." While Chaisson ests that the megaproject still has ems, he says it represents "a mar- s means to view the cosmos in atically new ways."

inventing the Future: Conversations the World's Leading Scientists by as A. Bass (Addison-Wesley, $14) s less in the way of discord while ering an equally enticing closeup fbeat and strong-willed geniuses. asks the questions, and the re- ses he gets can be mesmerizing. xample, student of evolution Rich- awkins explains what every corpo- primate knows: "In highly social als the most difficult part of the onment involves outwitting fellow es members."

As with these scientists, political observers find the future to be an intensely interesting subject. Daniel Yergin and Thane Gustafson take their shot at forecasting in **Russia 2010: And What it Means for the World** (Vintage, $13). Will Russia become a capitalist powerhouse? Or will today's unemployment, crime, and disaffection undermine democracy to produce a nonideological new version of the old Soviet empire? The authors, many of whose predictions have already come true, suggest in this updated edition that the former is more likely—but only after years of upheaval.

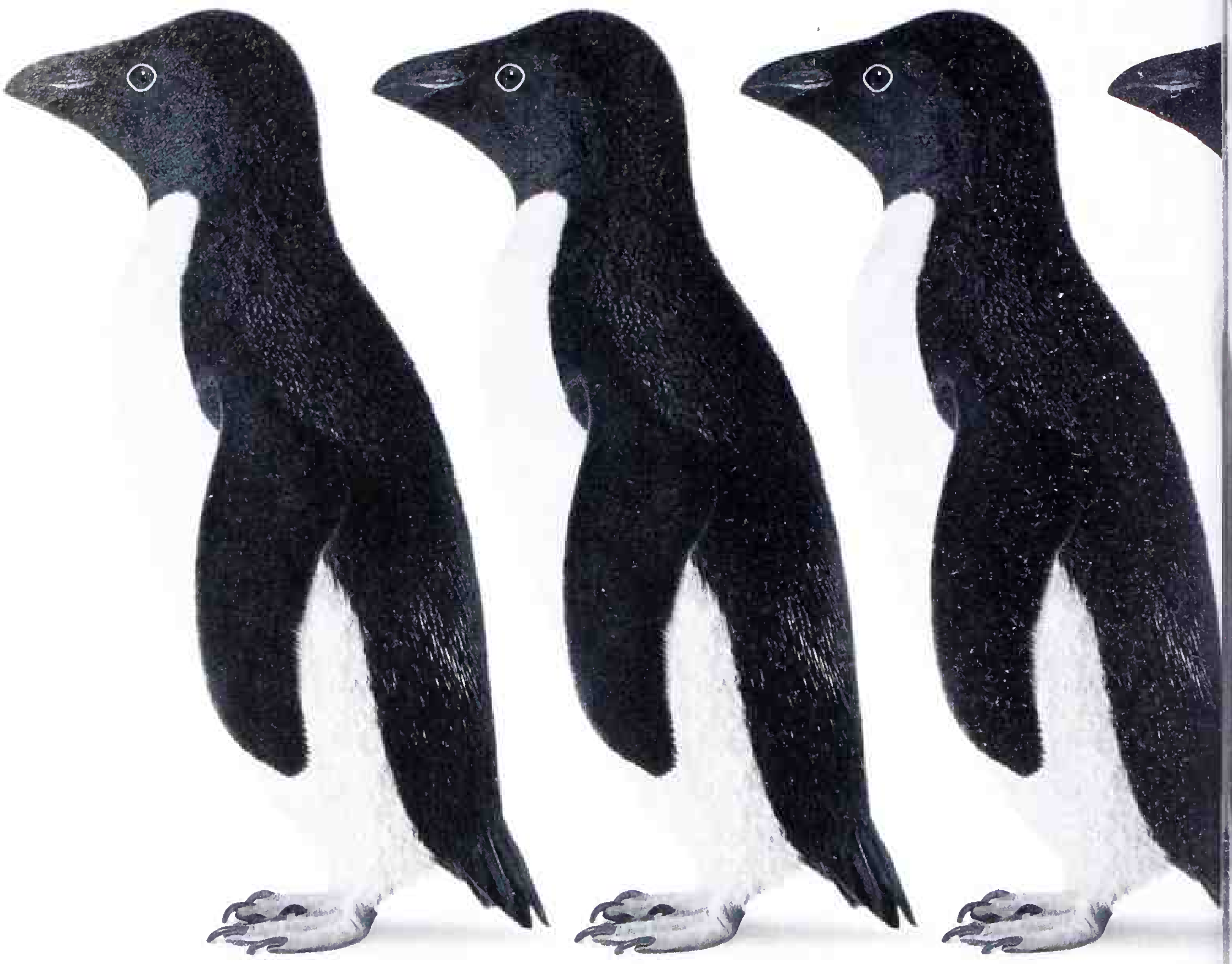
Then there's China, another onetime bad boy of the world community that is now seen as either a budding economic force or an antidemocratic throwback facing a sea of woes. In **The Rise of China: How Economic Reform Is Creating a New Superpower** (Norton, $14), William H. Overholt opts for the former outlook—and how. With the struggle for power having put most of the reforms on hold, the book now seems a bit optimistic. Still, Overholt's account of how China adopted market reforms while avoiding the chaos of *perestroika* remains valuable.

Another major player on the world stage doesn't come off nearly so well in Bruce Rich's **Mortgaging the Earth** (Beacon, $16). What behemoth has, over the past 50 years, plundered global natural resources and impoverished millions, all in the name of progress? Who subsidized the destruction of forests in Brazil along with the forced resettlement of at least 1½ million people worldwide? Give up? It's the World Bank, according to Rich, who backs up his charges with a wealth of detail showing how the bank's development projects have been "a prime accomplice in a quiet war against the diversity of humankind's cultures and our planet's biological inheritance."

But let's get down to business. Big Business—in other words, athletic shoes. **Just Do It: The Nike Spirit in the Corporate World** (Adams, $10.95) steers the reader deep into the culture of a $4 billion company that's as reliant on image-making as any Hollywood dream factory. Author Donald Katz descends on the maturing Nike Inc. as it confronts a set of serious crises: Success is threatening both its underdog image and entrepreneurial ways at the very moment that its prime pitchman, basketball legend Michael Jordan, has announced his retirement from the National Basketball Assn. Take a look to find out how the company and its philosopher-founder, Philip H. Knight, stay the course.

Every day is a crisis—or so it seems—for the men and women in David Dorsey's fascinating **The Force** (Ballantine, $12.50). The members of Xerox Corp.'s Cleveland sales team, whose lives and careers the author profiles for one breathless year, wheedle customers, stroke and berate subordinates, and shortchange their families, all as a part of the race to achieve their annual sales goals. We sweat it out with team members too tense to digest their lunches, so

HAYES HENDERSON



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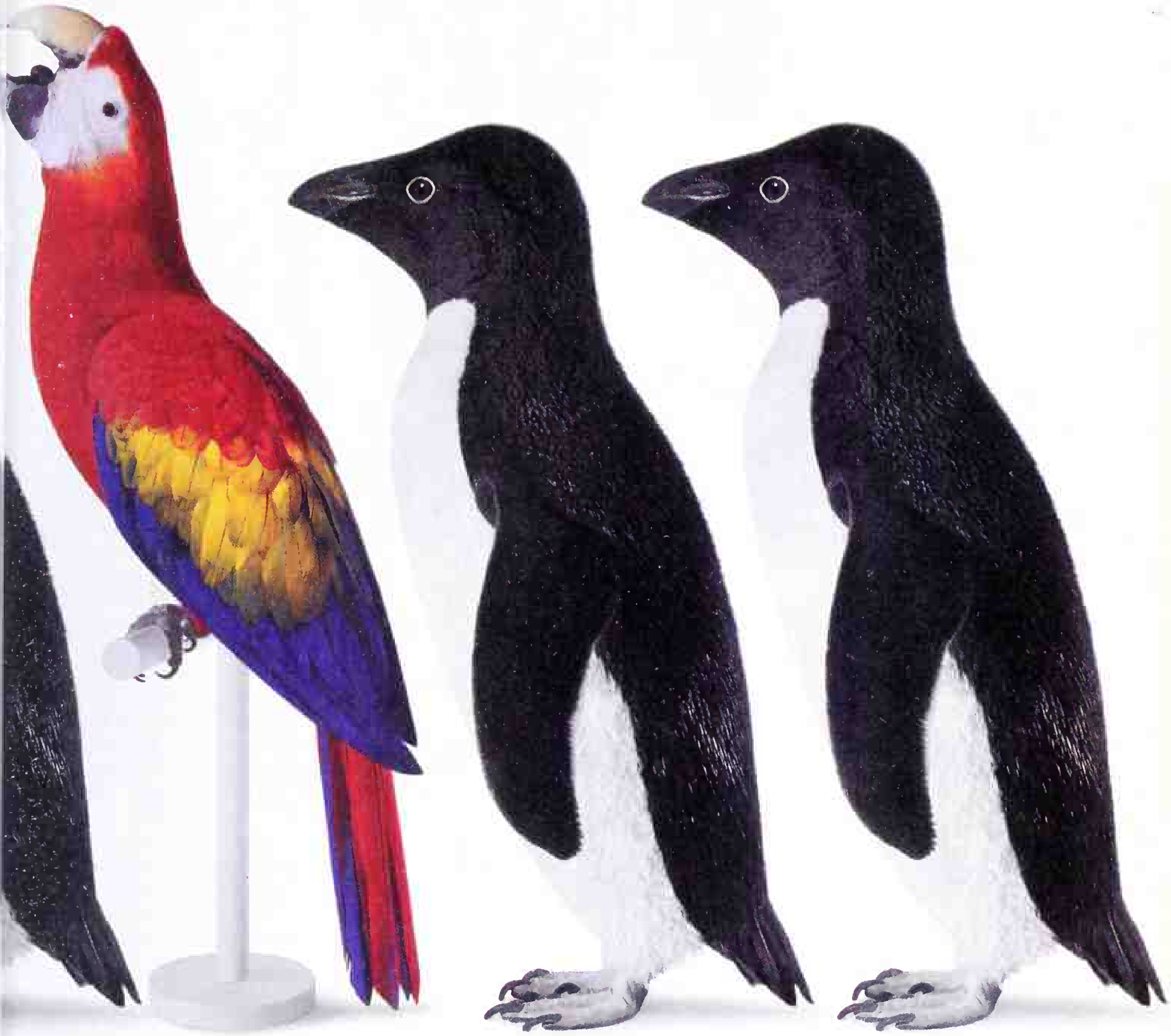

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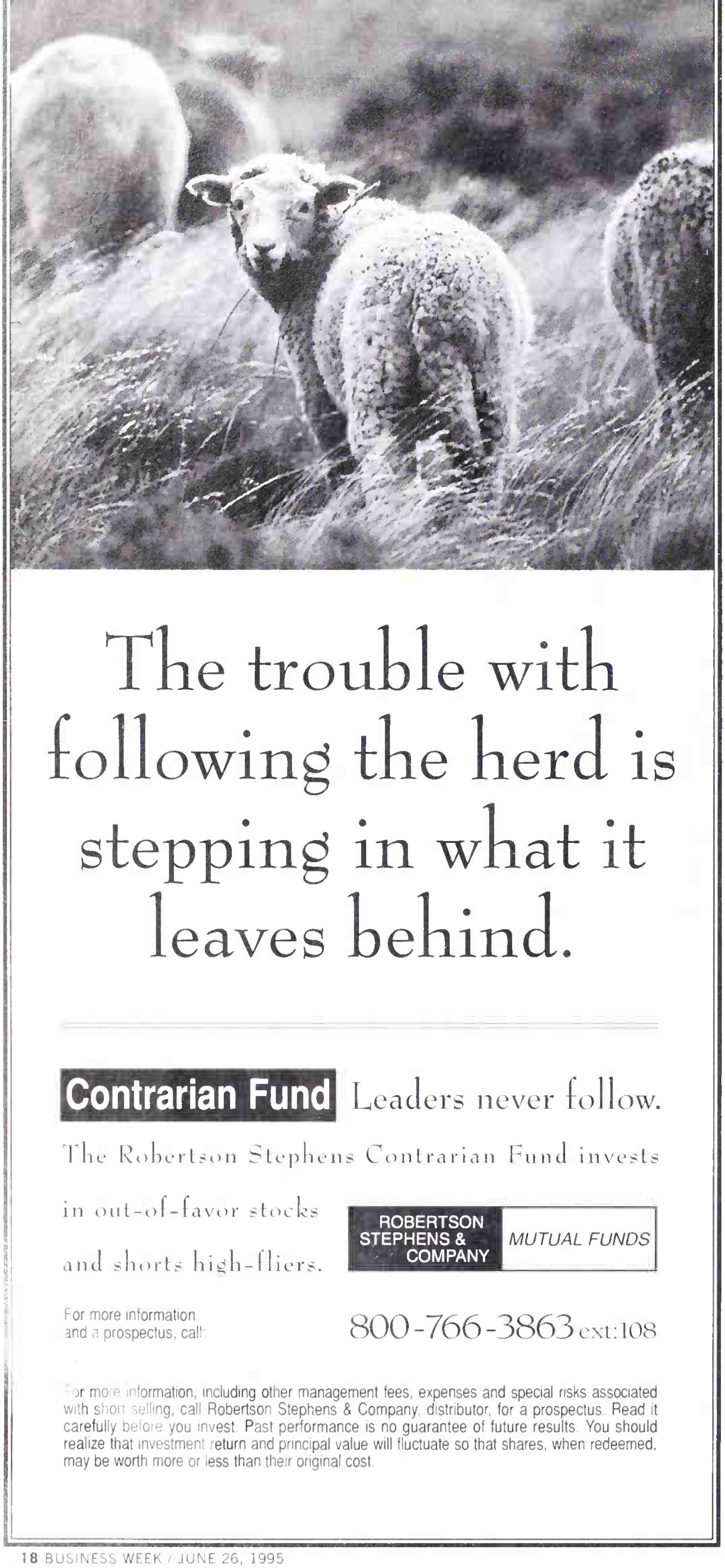

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fired. What drives them through
sons of stress and sleeplessness?
promise of bonuses, recognition, pr
tions—and the feeling that when y
on a roll, there's no one who can
your pitch.

It's that kind of intensity, many
lysts say, that makes small, nimble
panies the best hope for Americ
ture. But economist Bennett Harr
Lean and Mean: The Changing
scape of Corporate Power (Basic B
$13) begs to disagree. The acc
thorough research goes a long w
ward demolishing the idea that
companies are the font of either in
tion or job growth. Consequently,
the author, government and commu
should focus less on constructing in
tors for entrepreneurs and
on such things as improvements i
nomic infrastructure and helpi
build "interfirm alliances."

Economist Paul Krugman, on th
er hand, is inclined to think that,
it comes to economic well-being, n
government does matters much. In
dling Prosperity: Economic Sense
Nonsense in the Age of Diminishe
pectations (Norton, $12.95), liberal
servatives, and the supply-side
all take a lashing. Forget their
trums, he says—the key to succes
in improving productivity.

Nonsense, says New Age bu
philosopher Charles Handy: Highe
ductivity alone won't improve our
since it doesn't necessarily lead
creation. That's just one of the
"paradoxes of mature economies"
scribes in **The Age of Paradox** (H
Business School Press, $12.95).
Krugman, Handy excels at stirrin
troversy—and thought.

But if summer's sweltering
leaves you in need of a laugh, t
look at Christopher Buckley's **Than**
for Smoking (HarperPerennial, $12
a ruthless send-up of Washington l
ists, of the tobacco industry and i
versaries, and of political debate
boob tube.

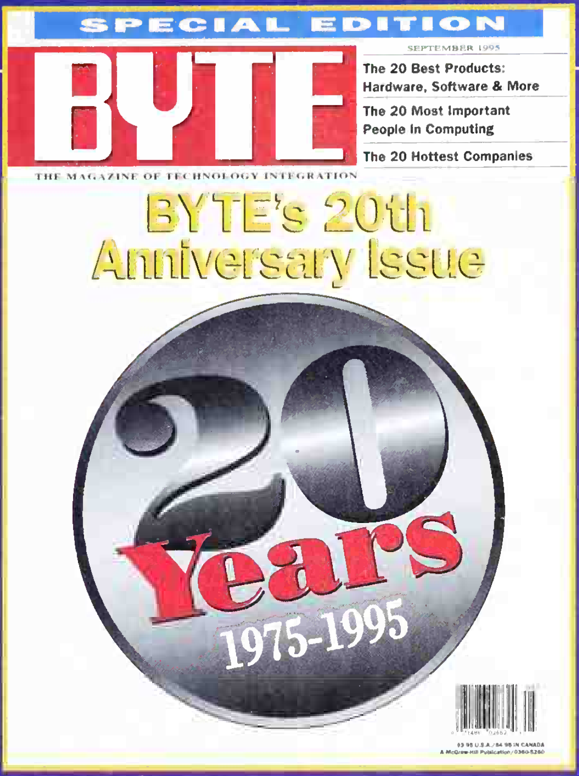
Or for cold-war intrigue, try
Catcher Was a Spy: The Mysteriou
of Moe Berg by Nicholas Dawidoff
tage, $13). When he wasn't wa
the Washington Senators' or Boston
Sox's bench—or honing his fluenc
dozen languages—Berg was serving
World War II OSS spy. Sound
fetched? As Casey Stengel used t
"You could look it up."

BY HARDY G

Green is BUSINESS WEEK's
Editor.

Macintosh Classic

Classic point & click.



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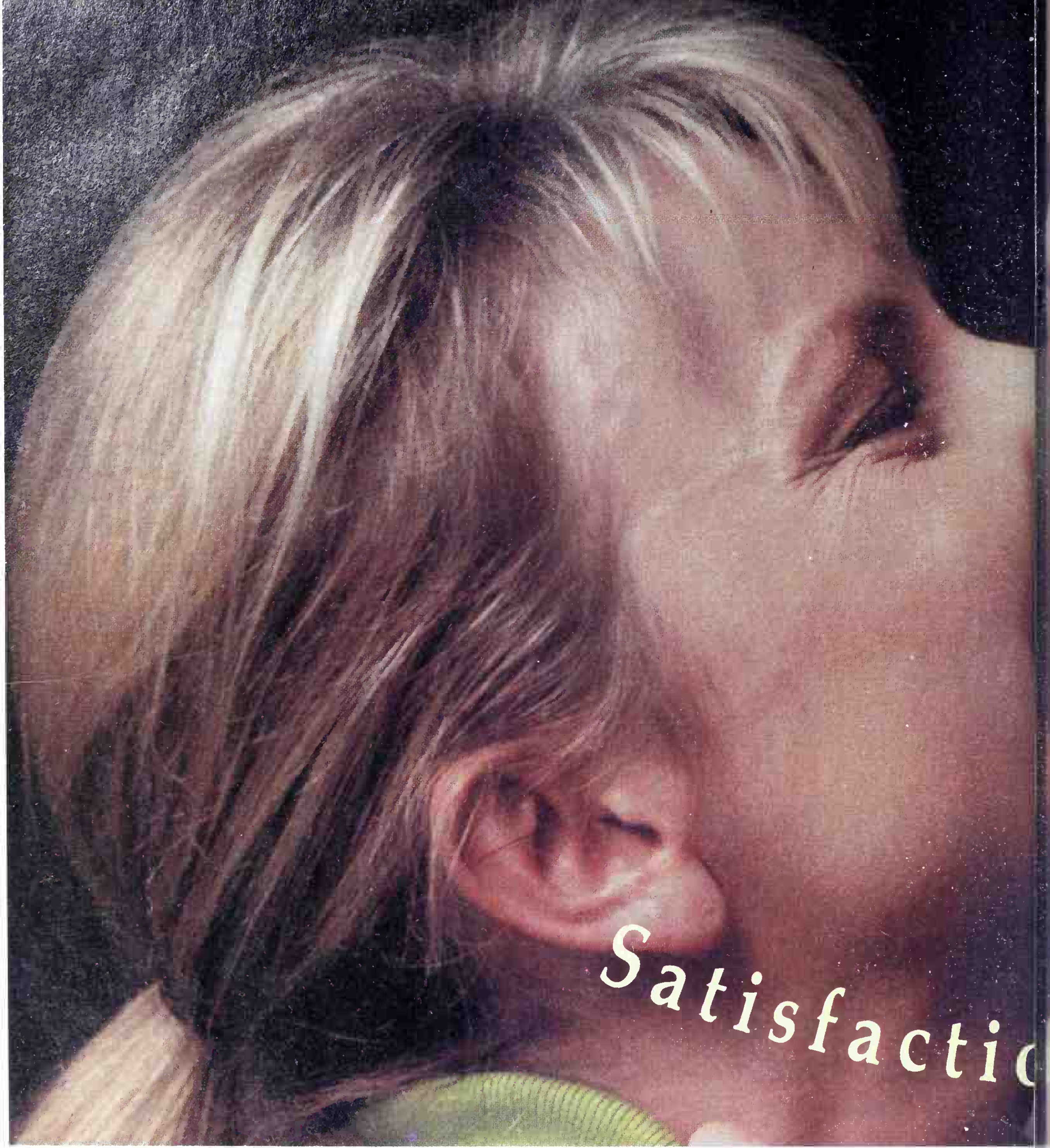

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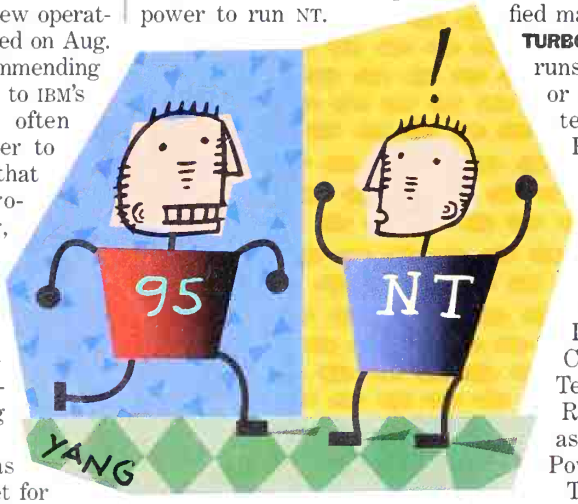
BY STEPHEN H. WILDSTROM

WINDOWS NT: HAS ITS HOUR COME?

If you use a computer at work, you're probably looking forward to Windows 95. The new version offers greater ease of use and more powerful software. For plenty of business users, though, Windows 95 may be the wrong move.

I'm not suggesting that you stay with Windows 3.1 after Microsoft Corp.'s new operating system is shipped on Aug. 24. Nor am I recommending that you jump ship to IBM's OS/2. But if you often push your computer to the limit or find that you need more robust networking, extra security, or crash-free performance, you should take a fresh look at Windows NT—Microsoft's heavy-duty operating system.



Windows NT has been on the market for about two years, but it appeared on few desktops until the 3.5 Workstation version debuted last summer at $319 for a single copy. Although interest has picked up, Microsoft still numbers sales in the hundreds of thousands, compared with 60 million or so copies of Windows 3.1.

EASY UPGRADE. Two factors have hobbled sales of NT. First, it is very power-hungry. When it appeared in 1993, the requirement of 12 to 16 megabytes of RAM looked absurd in a world where most new computers came with 4 megs. Like OS/2, NT can run most Windows 3.1 software, but few programs other than custom applications took advantage of NT's support for long file names or its ability to run many tasks at once. Even Microsoft didn't release a special NT version of its Word and Excel programs until last fall.

All of this is changing. The standard corporate desktop computer will soon be a Pentium with 16 megabytes of RAM, more than enough power to run NT. More important, the NT software shortage is about to end. Microsoft planned Win95 to run the same software as NT. If publishers want the "Designed for Windows 95" logo on their boxes, the programs must be NT-compatible. Under corporate bulk-purchase contracts, an upgrade to either operating system is expected to cost $50 to $100 per computer.

Who should choose NT? Virtually all home users and most smaller businesses can rule it out, because it doesn't provide for no-fuss, plug-and-play hardware installation. NT supports a more limited variety of hardware than Win95, and setting it up to run most effectively requires some expertise. You'll be stuck with a clunky Windows 3.1-style display, including its awkward program and file managers, until NT gets the Win95 desktop in the first half of 1996.

NT's biggest advantage is its robustness. No matter how badly a program crashes, it's almost impossible to produce a system lockup on NT that forces you to reboot—an event that is all too common in Windows 3.1 and is not rendered extinct by Win95. NT is also best at running several programs at once and offers first-rate network security—good enough to meet government standards for sensitive unclassified material.

TURBOCHIPS. Windows 95 runs only on 386, 486, or Pentium-class systems. But if even a Pentium isn't powerful enough for your computing needs, NT comes in versions that run on such hot RISC processors as Digital Equipment Corp.'s Alpha, MIPS Technologies Inc.'s R4000 series, and, as of mid-June, the PowerPC.

The important news for business in all of this is that a flood of updated applications expected this fall will run with either Win95 or NT and allow companies to select the most appropriate operating system for each machine without the compatibility woes created by mixing PCs and Macintoshes or Windows and OS/2. "We don't expect to see many companies that are all Windows 95 or all NT," says Paul A. Maritz, vice-president in charge of Microsoft's Platforms Group, which handles all operating systems. For many businesses, the operating-systems choices may soon be more complicated. But the improvements will be well worth it.

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5835) is making things ni
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than Canon BJC-600e and
Desktop 600C (BW–May 15
It's easy to set up and use
and comes bundled with a
ROM copy of Corel's CorelDr
3 graphics software.

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I usually don't evaluate so
ware until I've used a finis
version. A joke making the
rounds of the computer ind
try explains why: Microsoft
William H. Gates III goes to
his reward. It's not heaven
hell that offers him a choic
of three doors. Bill asks for
peek, and Satan says: "Su
Bill opens the first door an
sees a fiery pit full of anguished souls. The second
door opens on the same
scene. But the third door o
fers a vista of a lovely, sun
drenched beach. Bill choos
No. 3 and is immediately c
into a pit of burning brimstone. "What happened to
beach?" he asks the neare
imp. "Oh," the imp replies,
"that was just the demo."

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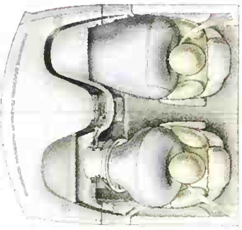

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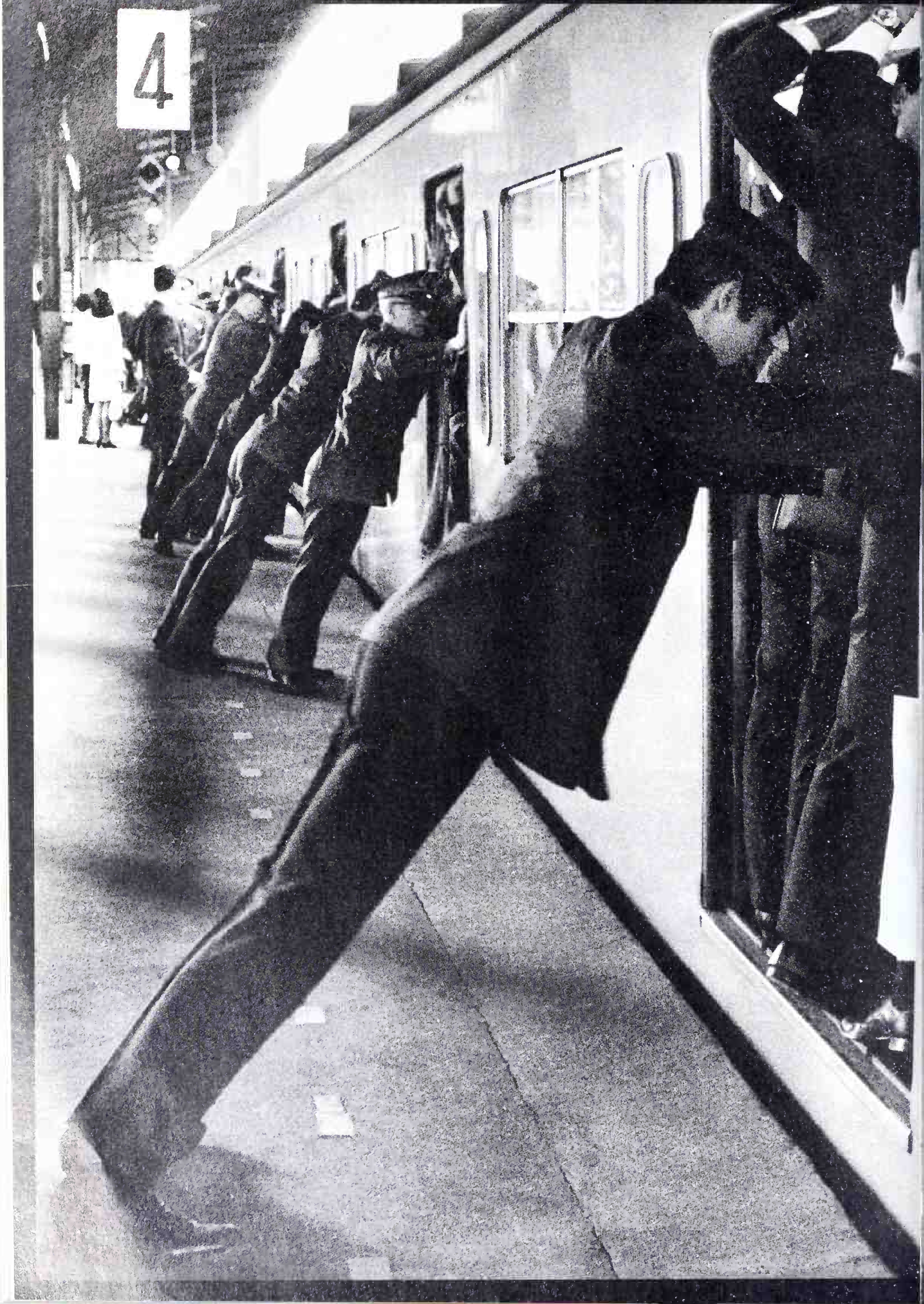
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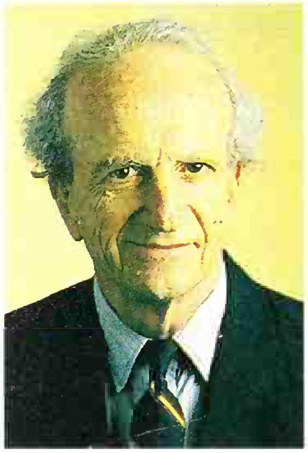
Economic Viewpoint

BY GARY S. BECKER

HOW BAD STUDIES GET TURNED INTO BAD POLICIES



THIN ICE: Politicians are quick to grasp flimsy results to justify actions that can inflict considerable damage on the economy

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

Economists cannot design research projects that decisively answer important policy questions. They have to rely on the limited knowledge that can be extracted from the effects of government policies and other events. Yet politicians are all too quick to grasp preliminary results of these studies as justification for regulations and other interventions that sometimes do damage to the economy.

A good example is a 1992 Federal Reserve Bank of Boston analysis of discrimination against applicants for mortgage loans. The senior author was Alicia Munnell, a respected economist who was then in charge of research at the Boston Fed and recently was nominated by President Clinton to fill a vacancy on the Fed's board. After reviewing what happened to some 4,500 loan applications in 1990 by banks in the Boston area, the authors claimed to have found evidence of extensive discrimination against black and Hispanic applicants.

The publicity that this study attracted led the Comptroller of the Currency to closely monitor banks for evidence of discrimination in their lending practices and to investigations of banks by the Justice Dept. and the Massachusetts Attorney General. Such scrutiny and political pressure resulted in legal actions against a few banks. One involved a consent decree last August with a Maryland bank for supposedly "shunning" loans in urban areas. Another involved settlement of a case against Chicago-based Northern Trust Corp., which alleged the bank gave greater assistance to white applicants who were attempting to qualify for mortgage loans.

Such political reactions would be justified if the Boston Fed found convincing evidence of bank discrimination. But the study—despite being lauded as conclusive—contains many omissions and data errors. An economist at the Federal Deposit Insurance Corp. took a close look at a sample of the actual lending records used by the Fed and concluded that the data are so inaccurate (owing, in part, to errors in copying), that it is impossible to determine whether or not banks had discriminated against blacks and Hispanics. Another analysis found that the Boston Fed's results are dominated by two banks that had relatively high rejection rates of minorities only because they specialized in soliciting loans from marginally qualified minority applicants.

Some of the evidence found by the B
Fed contradicts their claim of discrimin
against minorities. For example, averag
fault rates found in this study were
the same on loans in census tracts w
large percentage of blacks and Hispanics
predominantly white tracts. Yet if the b
had been discriminating against minorit
plicants, default rates on loans to mino
should have been lower than on loa
whites, since banks discriminate in part b
cepting minority applicants only with e
tionally good credit histories and employ
records. They would reject marginally
fied minority applicants while accepting
ginal white applicants. The implicatio
the theory of discrimination for default
and other behavior are spelled out in my
bel prize acceptance lecture entitled "Th
onomic Way of Looking at Behavior,"
lished in 1993.

WAGES OF ERROR. I am not claiming th
the additional studies of bank lending pr
es concluded that banks do not discrimi
nor am I suggesting these studies "p
banks generally do not discriminate. Bu
additional analyses do show the diffic
in reaching recommendations on contr
sial policy questions by generalizing
highly imperfect evidence.

These difficulties are further illust
through recent discussions of the employ
effects of minimum wages. The most
law in economics states that a rise i
cost of labor, capital, or other inputs l
demand for that input, a law that has
verified by the experience of thousan
companies all over the world. Yet Labor
retary Robert B. Reich cites controv
studies that claim to find rises in mini
wages have sometimes not reduced, and
even have increased, employment of
skilled workers. My discussion of some
lems with these claims appeared in BUS
WEEK of Mar. 6, 1995.

The effective responses to the allega
that banks discriminate and that higher
imum wages do not reduce employ
should be a lesson to economists not to
cate major policy initiatives on the ba
very limited and imperfect evidence. P
cians are only too eager to promote re
based on the flimsiest of evidence to at
support for policies that help voters and
est groups they favor.

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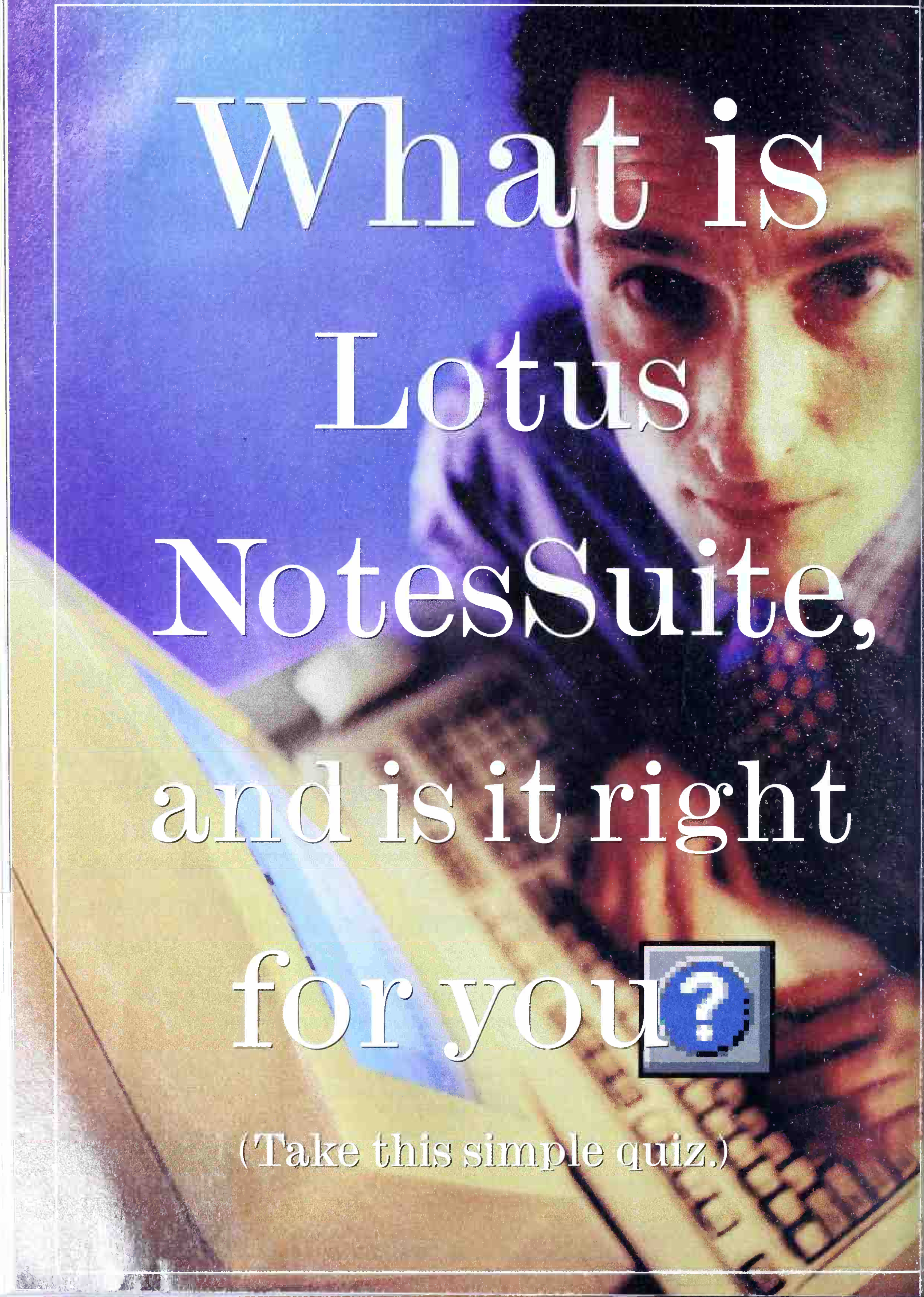
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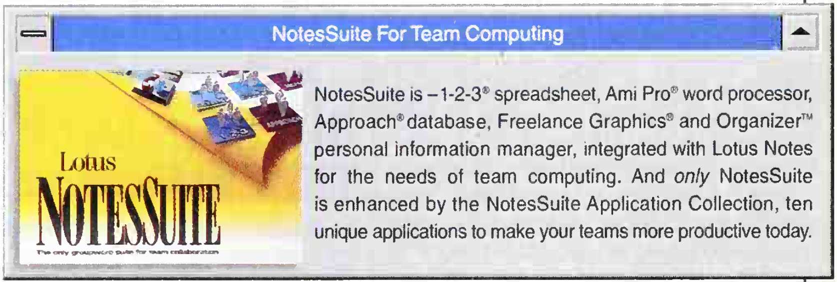

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BY GENE KORETZ

DETROIT SPIES A CAUTION SIGN

What are used-car prices saying?

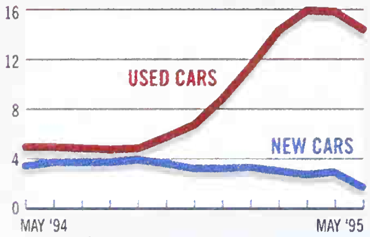
Although U.S. car and light truck sales perked up somewhat in May, auto makers are still worried and trimming production schedules. A particular source of concern to some—and hope to others—is this year's unusually hefty surge in used-car prices. At last count in May, they were running 14.4% over May of 1994 (chart), even as new-car prices and sales stayed sluggish.

Ordinarily, strong used-car prices bolster new-car sales because they raise trade-in values and thus make a new set of wheels more affordable. Indeed, auto analyst Ronald A. Glantz of Dean Witter Reynolds Inc. insists "new-car sales will rebound again once people realize how high trade-in values are."

But some industry observers think this year's unusually sharp price hikes signify a basic adverse shift in buying patterns. Economists at the Federal Reserve Bank of Chicago warn that the rapid growth of single-parent households, combined with sluggish income gains, have been gradually eroding underlying demand for new cars (BW—Feb. 13). Jack V. Kirnan of Salomon Brothers Inc. thinks even middle-class shoppers now opt for "nearly new" cars over pricier really new cars.

Several developments seem to be reinforcing this trend. Quality improvements mean cars and trucks last longer than ever. As millions of two- and three-year-old vehicles come off of leases each year, carmakers increasingly resell them with factory warranties. And now late-model used cars are equipped with dual air bags and other goodies that were once available only on new cars. Noting that used cars are being scrapped at an ever slower rate, economist Van Bussmann of Chrysler Corp. reports that he recently lowered his long-term projection of demand growth from 0.7% a year to 0.5%. High used-car prices, he says, are no guarantee that new-car demand will take off.

USED-CAR PRICES HAVE BEEN HOPPING



▲ PERCENT CHANGE OVER 12-MONTH PERIOD

DATA: BUREAU OF LABOR STATISTICS

With David Woodruff in Detroit

BIG RIGS KEEP ON TRUCKIN'

Sales continue to break records

Despite the spring slump in car sales, no serious worries are yet afflicting a smaller, highly potent sector of the motor-vehicle industry: heavy-duty trucks. U.S. and Canadian sales of these 16-ton-plus rigs, which cost $50,000 to $150,000, are exceeding last year's record 225,000-unit pace. "The industry is building and delivering around 20,000 trucks a month, which means it's running flat-out," says analyst Frank Prezelski of Ladenburg, Thalmann & Co.

To a large extent, truck builders' stellar performance in recent years reflects the resurgence of American industrial competitiveness and the need for more powerful and efficient trucks to speed deliveries. Indeed, many observers regard truck demand as a sensitive economic indicator. Thus, while orders have been slipping recently, Prezelski notes that the backlog still represents about a year's worth of output. "Truck orders are only saying that the economy has slowed, not fallen out of bed," he says.

U.S. SLUMP: A DOMINO EFFECT?

Why other economies won't topple

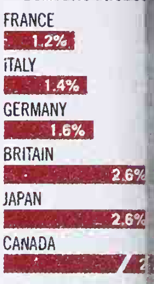
If the U.S. economy slipped into recession, would it drag the rest of the industrial world into a slump? Although many leading economies overseas are already slowing, economist Tony Riley of A. Gary Shilling & Co. doubts whether a U.S. contraction by itself could touch off a worldwide recession.

Riley bases his view on the contribution that merchandise exports to the U.S. make to the economic output of other G-7 countries. While exports account for 15% to 20% of the gross domestic products of Germany, France, Italy, and Britain, for example, exports to the U.S. account for only 1.2% to 2.6% of their GDP. And though Ja sends 30% of its exports to the U exports account for only 8.6% of its put, so the U.S. export share still c out to only 2.6%.

The bottom line: Assuming a 9% decline in U.S. imports (the drop actually recorded during the 1990-91 recession) and a multiplier effect that triples the direct contractionary impact, a U.S. downturn would cut European and Japanese growth by only one-third to three-quarters of a percent.

HOW EXPORTS THE U.S. STACK

PERCENT OF GROS DOMESTIC PRODU



DATA: A. GARY SHILLING &

A U.S. slump, of course, woul bad news for Japan because Jap economy is already in deep trouble. aside from Canada, whose export the U.S. are equal to 24% of its GD major industrial nation is likely to e rience more than a slowdown ca by a U.S. recession. "If their ec mies falter," says Riley, "the fault wi with their own domestic policymak

A NEW WAVE OF *MAQUILADORAS*

The peso's drop spurs expansio

It isn't quite the giant sucking so predicted by Ross Perot, but the little doubt that the impact of the f peso on Mexican wages is spar interest among U.S. companies see sites for low-cost manufacturing an sembly operations. Economist M Leos of WEFA Group Inc.'s Mexican casting unit, predicts that the *maq* *dora* sector close to the U.S. bo will add some 390 plants by 20 boosting the *maquiladora* workf from 579,000 last year to 943,000.

The irony is that proponents of North American Free Trade Agree claimed that its salutary effects on ico's economy and wages would slow growth of *maquiladora* operations. however, Mexican manufacturing pensation is expected to be down this year, to a mere $1.80 per hour, to remain below last year's level the turn of the century. Thus, state complaints about U.S. jobs being sh south of the border could grow shriller in the next few years.

AMES C. COOPER & KATHLEEN MADIGAN

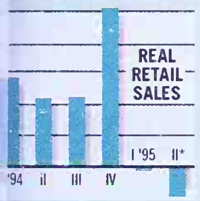
HOPPERS DON'T LOOK READY) PUT AWAY THEIR WALLETS

U.S. ECONOMY Once again, consumers are under the microscope. If they d on a modest but rising trend, the economy will chugging along, the Federal Reserve won't have ıt interest rates, and the Clinton Administration oreathe a little easier as the 1996 election year rolls nd.

ıt what if households decide to pack it in? After he consumer sector is the economy's 900-pound la whose purchases account for two-thirds of U.S. omic activity. That's why the recent downbeat umer-related data have economy-watchers from Street to Washington pacing the floor out of y over a possible recession.

For example, the 0.2% rise in May retail sales was weaker than expected. Jobless claims are trending higher, underscoring the soft labor markets. And the modest pace of consumer inflation indicates businesses are facing lackluster demand and excess inventories, and so cannot raise prices much.

ISUMERS PULL BACK. WILL IT LAST?



ARTERLY PERCENT CHANGE, NUAL RATE *EST.

A: COMMERCE DEPT., BUSINESS WEEK

However, the current weak in the consumer sector is far from alarming, and er-term fundamentals argue that consumers are kely to cut spending drastically and send the econ spiraling downward. Balance sheets appear exıely healthy, helped by rising stock and bond pricınd steady home values. Households show little lems in paying their bills, and consumers still have gh level of confidence.

MAY RETAIL REPORT was a disappointment for e hoping for a clear sign that consumers are on the ound. The news, so close on the heels of the June 2 ort of 101,000 fewer jobs in May, further heightens policy pressures on and within the Fed (page 34). ay's puny rise did not recoup the 0.3% sales drop in il. Car sales rose 0.5%, but building materials purses—a victim of the housing slowdown—plunged . Sales at gasoline stations fell 0.7%. For the first months of the second quarter, real retail sales e down at an annual rate of 1.9%, compared with r first-quarter average (chart).

melling an imminent rate cut, the bond market ralfiercely after the June 13 release of the retail . The yield on 30-year Treasury bonds closed at 6.54%, down from 6.7% the day before, the strongest one-day rally in nearly a year.

That reaction seems a bit hysterical. Despite weak outlays for goods, the data so far suggest that real consumer spending will rise by 1% to 1.5% in the second quarter—mainly because service outlays began the quarter strongly. Even if inventory growth slows substantially, that pace is not consistent with the zero-to-negative expectations for second-quarter economic growth now increasingly popping up.

A LOOK AT HOUSEHOLD FINANCES shows why consumers are not ready to throw in the towel. The Federal Reserve reports net financial assets acquired by households continued to rise in the first quarter, at an annual rate of $556.6 billion.

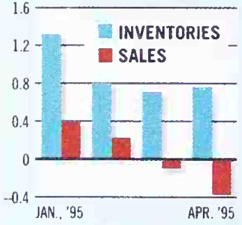
Consumers may not be quick to use their investments as a source of cash during this slowdown, however. One reason is that many investments, such as 401(k) plans and IRAs, cannot be touched. Also, baby boomers are in their saving years, so they may not be willing to cash in their equity windfall. And investors may wait to see if Congress cuts the capital-gains tax, reducing the cost of selling stocks and bonds.

Still, the sense of increasing wealth may be a reason why consumer confidence has stayed fairly high, even amid signs of a softer economy.

Looking at the liability side of their balance sheets, consumers are in much better shape than they were prior to the 1990-91 recession. Consumers have added debt at an explosive rate over the past year. Installment credit alone grew by $11 billion in April.

But the Fed also reports that households needed only 16.1% of their disposable income to make their debt repayments at the end of 1994, and economists at Regional Financial Associates Inc. estimate that percentage has risen to only 16.4% in the second quarter. Both rates are way below the peak 18.4% hit in 1989. In addition, mortgage delinquency rates fell to a 22-year low in the first quarter, and only 1.5% of other debt payments were late.

INVENTORIES GROW, BUT NOT SALES



▲ MONTHLY PERCENT CHANGE,

DATA: COMMERCE DEPT., BUSINESS WEEK

Healthy finances argue that consumers will head back to the malls. In fact, it may already be happening. The *Johnson Redbook Report* says that sales at discount and chain stores for the first two weeks in June

ERIC HOFFMANN/BW

were up 1.6% above their May average. Plus, the Conference Board's May survey of buying plans found that more consumers planned to buy cars and major appliances than at any time in the past year.

A return of shoppers will ease the current production disruption caused by the need to adjust inventories. As of April, that process had not yet begun. Stock levels at manufacturers, retailers, and wholesalers jumped 0.8% in the month, as sales fell by 0.4%. That was the second month in a row that inventories rose strongly amid falling sales (chart, page 31).

By May, though, businesses appeared to be whipping their inventories into better shape, especially the auto industry. The nation's purchasing managers said that inventory growth slowed sharply in May, and car dealers ended the month with a 69-day supply of cars and trucks. That's down from April's huge 78-day supply and closer to the desirable 60-day total, although further output cuts will be needed.

PARING DOWN excess inventories will continue to brighten the already radiant inflation news. Consumer prices edged up 0.3% in May, and excluding food and energy, core prices rose 0.2%—half of the April advance. Smaller increases in the prices of cars, airline tickets, and auto financing led the moderation.

Over the past year, consumer prices have risen 3.2%, and core prices are up 3.1% (chart). Although both rates are slightly above their 1994 performances, speedup is within the range that the Fed will tole

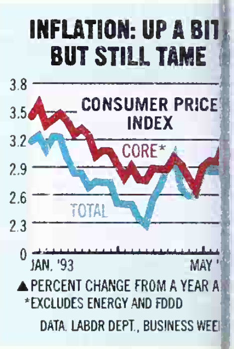
Inflation for goods and services has been mod Service prices have risen 3.5% in the year ende May, and goods prices are up only 2.6%. Goods infla may come under downward pressure in coming mo as retailers cut prices to move merchandise.

Already, the disinflationary effects of slower business activity are evident among producer prices. Producer prices of finished goods were unchanged in May, while core producer prices edged up 0.3%. Both inflation measures are rising by about 2% from a year ago.

Further back in the production process, price pressures showed signs of easing in May. Core prices of inter diate materials and supplies rose just 0.2% in May ter a 0.7% jump in April. And core prices of cr materials fell 0.3%, after a 1.2% gain in April.

Later this year, as consumers pick up their p and inventories grow less burdensome, factories hum again. That rebound will be crucial for keeping economy on an even keel—and preventing inves and policymakers from too many anxiety attacks.

INFLATION: UP A BIT
BUT STILL TAME



▲PERCENT CHANGE FROM A YEAR A
*EXCLUDES ENERGY AND FDDD
DATA. LABDR DEPT., BUSINESS WEE

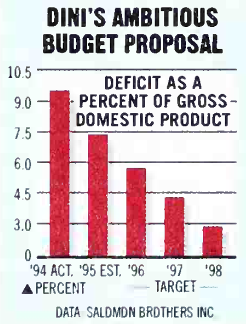
ITALY

A POLITICAL DUEL WITH THE BUDGET AS VICTIM

With inflation heating up, Italy's task of cutting its budget deficit is becoming increasingly urgent. But a new round of political uncertainty is threatening to undermine the government's efforts.

On May 31, Prime Minister Lamberto Dini submitted a tough three-year plan to cut the deficit. However, former Prime Minister Silvio Berlusconi's June 12 victory in a referendum, allowing him to keep all three of his television stations, shifts the political landscape. Recouping some lost clout, Berlusconi has called for early elections this fall, which would cripple Dini's efforts to pass his budget, given his already-slim parliamentary majority. The lira plunged after the vote, forcing the Bank of Italy (BOI) to intervene. Investors believe Dini, a former central-bank director general, is more committed to deficit cutting than Berlusconi.

DINI'S AMBITIOUS
BUDGET PROPOSAL



▲PERCENT
DATA SALDMDN BRDTHERS INC

Dini's 1996 budget is ambitious. It raises 32.5 trillion lire ($19 billion), split between spending cuts and tax hikes. The plan fattens the projected 1996 surplus in the primary budget—all items excluding interest—from 47.5 trillion to 80 trillion lire. Interest on Italy's huge national debt would total 189.4 trillion lire. That yields a 1996 deficit of 109.4 trillion lire, down from 130 trillion in 1995. Dini proposes to cut the deficit from 7.4% of gross domestic pro uct in 1995 to 3% by 1998.

But Dini's blueprint is overly optimistic. Economic growth pro jections—3% through 1998—see too upbeat, and expected inflation—3.5% for 1996, falling to 2.5% by 1998—appears too low. With inflation jumping to 5.5% i May, from 3.6% last summer, an with further hikes in interest rates likely, 1996 interest payments look too low.

The BOI lifted official rates by three-quarters of a point on Ma 26, to 9%, and BOI Governor Ant nio Fazio has set informal inflati targets: If inflation exceeds 5.2% for 1995, or 4% for 1996, the BOI "will not hesitate" to tighten fur ther. But lasting gains on inflatio depend on fiscal reform, and tha requires the Dini government to stay on until 1996.

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THE ECONOMY

IN A FIX AT THE FED

It is beset by a sudden slump, a nervous President, and open dissent

SEAL OF THE PRESIDENT OF THE UNITED
E PLURIBUS UNUM

It seemed like the ideal time to be a central banker. Just weeks ago, with economic growth moderating from last year's torrid pace and inflation in check, Federal Reserve Chairman Alan Greenspan was confident he had piloted the economy to a soft landing that would require no change in interest rates over the coming months. After spending most of his tenure coping with a banking crisis, a recession, a low-growth expansion, and a stock market crash, he looked to have a smooth summer ahead.

Forget the beach. A flurry of unexpectedly downbeat economic news, including a jarring June 2 report of May job losses, has put Greenspan on alert. He's feeling heat to pull the sputtering economy out of its current dive by cutting interest rates as early as July.

PANETTA'S SALVO. The pressure is coming from all sides: a Fed colleague who went public with concerns about the economy, a White House nervous about waging a reelection campaign in a weak economy, and corporate executives urging the Fed to reopen the flow of credit. "You turn off the spigot, and you can't turn it back on so easily," says Stanley C. Gault, chairman of Goodyear Tire & Rubber Co. "It would help if they lowered rates." And with yields on two-year and five-year bonds now below the overnight rate the central bank controls, traders have fully priced in a Fed rate cut. "If the Fed doesn't align its policy with the markets, it puts itself in a position of being blamed for exacerbating the slowdown," says David H. Resler, chief economist for Nomura Securities Co.

For Greenspan, there's even more at stake. It is widely assumed in Washington that the Fed chairman would like to be reappointed to a third four-year term next March. But neither Bill Clinton nor the Republican-controlled Senate, which confirms Fed nominees, will be inclined to renew the 69-year-old economist's contract if growth doesn't snap back smartly. "If Greenspan cares about his reappointment, he doesn't want this economy to go into recession," says one former Fed governor.

Just to underscore the political pressures, the White House broke a two-year moratorium on jawboning the Fed when White House Chief of Staff Leon E. Panetta urged the central bank on June 11 to cut the 6% federal-funds rate banks charge one another for overnight loans. President Clinton's advisers insist that Panetta's remarks were spontaneous and not the start of an anti-Fed campaign. "He was careless in how he responded," says Treasury Secretary Robert E. Rubin. "People may slip." Still, others don't regret Panetta's salvo. "It was not a bad idea to send a little signal," admits one White House aide.

There are likely to be plenty more signals if the Fed doesn't get the hint. And if sniping from the White House is not enough, Greenspan has to worry about tensions building within the Fed, which until recently had maintained a united front on monetary policy. Alre some Fed policymakers are second-gu ing their last rate hike—a half-p move in February amid initial signs economy was starting to cool. "If meeting were held again, we would [make] the same decision, knowing w we know now," concedes one insider

Meanwhile, Fed Vice-Chairman

Reading the Fed's Tea Leaves

Will the Federal Reserve cut short-term rates? In public statements and interviews, Fed officials have opposing views. Here is a scorecard:

DATA: DOW JONES INVESTOR NETWORK, BUSINESS WEEK

ALAN GREENSPAN
CHAIRMAN

Says current "pronounced" slo "inevitable but desirable" if it companies to work down high inve Thanks to the slowdown, the "proba an inventory recession...has decreased significantly."

linder, a former Clinton economic
ser, appeared to be lobbying publicly
 rate cut when he told Reuters on
6 that the odds of a recession had
 and that he was "more concerned
 about the downside [risk to the
omy] than the upside" risk of infla-
That candid assessment riled some
s former Administration colleagues, who have maintained an upbeat posture on the economy. His comments were also read by the Clintonites, Wall Street, and former Fed officials as a thinly veiled call on Greenspan to reverse course. "It seems clear that Blinder is beginning to make his case for an early move," says David M. Jones, chief economist for Aubrey G. Lanston & Co.

A proponent of the "preemptive easing" approach, Blinder seems eager for the Fed to begin cutting rates early enough to avert a slump—even if price pressures are still building. "This is a big thing going on between Greenspan and Blinder," says one Administration official, who claims Blinder argued against the February rate hike before grudgingly voting with the majority. "I'm surprised by the recriminations."

Greenspan pursued a preemptive easing in 1989 but was too late to prevent a recession. Now, he appears more optimistic than Blinder that the economy will bounce back from its doldrums, perhaps by fall. At a Seattle press conference on June 7, Greenspan called the slowdown "desirable," reasoning it would probably help the U.S. work off excess inventories that would otherwise tip the economy into recession.

The divergence in Blinder's and Greenspan's views—though carefully nuanced in Fedspeak—was one of those rare differences that spill out into the open. "It is almost reminiscent of the Preston Martin-Paul Volcker days," says former Fed Governor Wayne D. Angell, now chief economist at Bear, Stearns & Co. Like Volcker and Martin, who as chairman and vice-chairman openly argued over policy in the early 1980s, "Blinder and Greenspan are willing to have the public discern a difference in their views," Angell adds.

But if Blinder indeed is leaning toward easing policy, he appears to be in the minority, at least for now. Following his public remarks, other Fed officials hinted that they are in no rush to begin unwinding the seven rate hikes that doubled the fed-funds rate from 3% at the start of 1994 (table). Fed Governor Lawrence B. Lindsey dismissed criticism that the Fed overtightened: "I think we did a pretty good job," he declared in a June 8 speech. The same day, Edward G. Boehne, president of the Federal Reserve Bank of Philadelphia, said he believes the economy will perk up this fall.

MOMENT OF DECISION. Privately, Fed officials say Greenspan doesn't want to be in a situation where he cuts rates prematurely, the economy builds up a new head of steam, and the central bank finds it has to hike rates again in the heat of a Presidential campaign. Fed watchers concur. "Greenspan realizes that going into an election year, he can't reverse any rate cuts without massive criticism from the White House," says Jones. "He wants to be fairly sure of himself before he takes the plunge." Although many analysts believe growth in the second quarter could dip below 1.5%—and even move into negative territory—Fed officials hope the sharp plunge in yields on the benchmark 30-year Treasury, from 8.25% last November to 6.57% on June 14, will be enough to spur the economy.

For Greenspan, the moment of decision for the economy, and his job future, could come in early July. The rate-setting Federal Open Market Committee meets on July 5-6, and the key Labor Dept. payroll survey for June will be released on July 7. Another jobs drop atop the 101,000 May loss is sure to intensify the pressure to reverse course in a hurry.

That's not the prospect Greenspan had in mind in early spring, when all he saw on the horizon were blue skies. But with the economy losing altitude, the pressures are mounting on the Fed to cut rates, and soon. For the chairman, that could mean a long, hot summer.

By Dean Foust, with Susan B. Garland, in Washington

ALAN BLINDER
VICE-CHAIRMAN

d unusual discussion among
icymakers by saying publicly on
that he's "more concerned now
ne downside [risk to the economy]
ne upside" risk of
nflation.

Yes

LAWRENCE LINDSEY
GOVERNOR

Dismisses talk that the Fed tightened too much: "I think we did a pretty good job." Says growth could slow to an average 1.5% over the next six quarters, providing the economy with needed capacity.

No

JANET YELLEN
GOVERNOR

Expected economic weakness but admits "some concerns" about a too-rapid sales slowdown: "I'm nervous about the situation." Still, says it's "too soon to call the shots" on monetary policy.

Maybe

SENIOR CITIZENS: HOW MUCH PAIN?

THE BUDGET

BILL CLINTON, DEFICIT HAWK

Suddenly, he's in bed with the GOP–and a budget deal is likely

The great Battle of the Budget is over. The hawks have won. Oh, there are details to be thrashed out. And there probably will be another crisis or two before President Clinton signs a Deficit Reduction Act of 1995. But faced with overwhelming pressure from the GOP majority in Congress and a dramatic shift in public opinion, Clinton quit fighting on June 13. In his six-minute prime-time speech, he joined the balanced-budget crowd, producing a plan to eliminate the deficit in 10 years. "Finally," says American Standard CEO Emmanuel A. Kampouris, "the President is coming forward."

The framework of Clinton's plan follows the GOP's lead: He would trim growth in Medicare, Medicaid, and welfare spending and make deep cuts in most other programs. And he would cut taxes. The only major difference: The President insists on more money for education. Although specifics differ from the House and Senate blueprints, the outlines of a megadeal are falling into place. Says Senator Joseph T. Lieberman (D-Conn.): "It is now inevitable that we will have a balanced budget by [a specific] date." Adds Frank Shafroth, chief lobbyist for the National League of Cities: "The shape of the debate is fundamentally changed."

The political landscape is changed as well. In a single week, Clinton has abandoned liberal Democratic orthodoxy. For instance, he only mildly criticized Supreme Court decisions that cut deeply into federal affirmative-action and school-desegregation programs, then cut loose his party's congressional leadership on budget policy. House Democratic leaders and other members of the party's traditional wing are furious. But centrist Democrats argue that it's long past time for Clinton to adapt to a changing electorate. "We need to tell the liberal Democratic congressional wing to shut up," says consultant Brian Lunde. "Their agenda is no longer relevant."

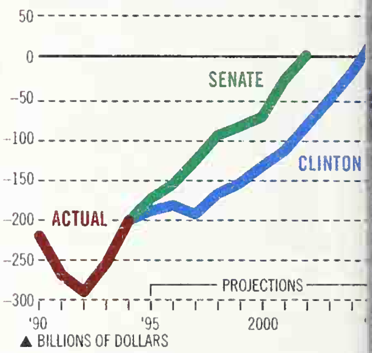
Clinton's political calculus tells him he doesn't need liberals to pass a balanced budget. And while Republicans publicly grumble that his plan is too little, too late, they're privately cheering that he's dealing on their terms. Further, the GOP majority in Congress probably can muster 75 House Democrats and 20 Senate Democrats to back big spending cuts—as long as tax cuts are small. Says Representative Charles W. Stenholm (D-Tex.), a deficit hawk: "For the first time in my years in Congress, we have a majority of the House and Senate and the President all saying that balancing the budget is a priority."

To reach out for a deal, the President has made four key concessions:

■ **Health care.** Medicare and Medicaid are squarely on the table. Clinton had

TALE OF TWO BUDGETS

The U.S. budget deficit, as projected in pl
from President Clinton and the Senate



DATA: OFFICE OF MANAGEMENT & BUDGET, CONGRESSIONAL BUDGET OFFICE, SENATE BUDGET COMMITTEE

been unwilling to change either
gram in his February budget plan.
he claims he would trim the rat
growth for both by some $153 bi
over seven years. That's less than
the House or Senate savings. But
side experts say Clinton may be un
estimating the extent of his cuts.
Committee for a Responsible Fed
Budget figures that Clinton and
Senate are only about $6 billion a
apart in their health proposals—
than 2% of what would be spent in
without changes.

■ **Welfare.** In another reversal an
bow to reality, Clinton now estim
that a reform plan will save $38 bi
in planned government spending for
safety net. Previously, he backed we
overhauls that required costly job
training programs.

■ **Taxes.** Clinton would still trim ta
for families with children and for ed
tion expenses. His $100 billion pla
far less than the House's $350 bi
proposal. But both sides have plent
room to give, especially since the Se
would not cut taxes at all until the
get is balanced.

■ **A balanced-budget deadline.** Ten ye
Seven years. Outside the Beltway,
seem to care. "The timetable as
is not a great issue. It's important
as a signal of resolve," says Van I
Ooms, senior vice-president of the C
mittee for Economic Developmen
business-oriented research group.

The fate of the budget is now u
congressional Republicans. They can
blow up an agreement by demandi
massive tax cut. But the betting is
they won't. That means a grand bu
compromise is finally on the way.

By Howard Gleckman, with M
McNamee, Mary Beth Regan, and R
ard S. Dunham, in Washington

THUNDEROUS IMPACT' EQUAL OPPORTUNITY

upreme Court decision may gut racial preferences

ix years ago, affirmative action began a giant slide down a treacherous slope. That was when the U.S. eme Court, setting a tough legal dard for state and local minority side plans, tossed out a Richmond program that reserved 30% of the construction work for minorities.

ne decision had a rapid impact: in a year, nearly all of the nation's state and local programs had been antled or suspended, according to Minority Business Enterprise Le- efense & Education Fund. In Rich- l, the minority share of construction rs shriveled from 41.6% to 2.2%. vas devastating," says Deborah L. es, Richmond's minority business rprise administrator. "Diversity in onstruction industry went back to ld ways."

ow, affirmative action may be near- he cliff. On June 12, the Supreme t raised the same hurdle for a fed- program that helps companies clas- l as "disadvantaged." The ruling l affect a panoply of racial prefer- s, from reserving radio spectrum ninorities to the 1965 executive or- equiring nearly 200,000 federal con- ors to adopt affirmative-action hir- plans. The decision "will have derous impact," warns Ronald M. n, a lawyer who represents compa- in affirmative-action disputes.

SURE. Some lawmakers aren't wait- or the ripple effect. Senate Majority ler Bob Dole (R-Kan.) and Repre- ative Charles T. Canady (R-Fla.), man of a key judiciary subcommit- plan to introduce bills to nullify the utive order and other federal pro- ns that help minorities. Even Pres- t Clinton is likely to recommend ailing some preferences.

ome experts say the shift in Wash- on could prompt companies to re- to their old habits. "If we pulled affirmative-action programs tomor- we would revert back to blatant imination in a second," says Donna tte, a consultant who has studied panies' attitudes toward diversity.

mployers such as Sears Roebuck, , and Texas Instruments dismiss fears. If a company depends on loyees for a competitive advantage, 've got to create an environment ttract people from all segments of the population," proclaims Jim Porter, Honeywell Inc.'s vice-president for human resources.

Lawyers advising corporations raise another concern. Government contractors face a conflict between the ruling and the 1965 executive order. If they scrap their affirmative-action plans, they may lose federal contracts. Under the new ruling, though, too aggressive a plan may spawn reverse-discrimination suits. "It really puts business in a bind," says Theodore Wang, an attorney with the Lawyers' Committee for Civil Rights, a San Francisco nonprofit group that consults with large employers.

Now, the feds must prove past discrimination to justify preference—and that's expensive

CONTRACTOR PECH'S SUIT LED TO THE RULING

ED ANDRIESKI/AP/WIDE WORLD

A slew of litigation is expected to resolve the uncertainty created by the Supreme Court ruling. The case was brought by Randy M. Pech, the white owner of Adarand Constructors Inc., a Colorado Springs company. After submitting the low bid for subcontracting work, he lost to a company designated as disadvantaged because of its Hispanic ownership. The high court didn't strike down the preference program but said that, like state and local set-asides, it was subject to "strict scrutiny." The plan could be upheld if the government proves it had a compelling interest, such as correcting past discrimination, and that the remedy was narrowly tailored.

LEGAL LIMBO FOR EMPLOYERS

How the Supreme Court's ruling on federal preference programs may affect corporate affirmative action:

PROBABLY SAFE

- Voluntary hiring and promotion goals for minorities and women
- Recruiting on predominantly minority college campuses
- Advertising job openings in publications targeting minorities

AT RISK

- Special deals with recruiters to bring in only minorities
- Reserving job slots for minorities and women
- Plans based on federal mandates for aggressive minority hiring
- Reserving wireless phone spectrum for women and minorities

DIRTY WORK. Some cities and states have met that difficult standard by introducing race-neutral programs targeting the disadvantaged or flexible goals for minority contracting. But studies that prove past discrimination are expensive. For Uncle Sam to justify all of its programs would require an unprecedented number of studies and discrimination findings. "I can't imagine how they're going to do it," says Gilbert J. Ginsburg, a Washington contracts lawyer.

Advocates of affirmative action are eager to try. But Ralph C. Thomas III, head of small-business contracts at the National Aeronautics & Space Administration, worries that the effort could strain relations with government contractors. To justify programs, "we have to dig up all the dirt" on companies' hiring practices, he says. If the ruling also emboldens more workers to file reverse-discrimination suits, the last phase of the affirmative-action war could be a nasty one. And Corporate America could get caught smack in the middle.

By Stan Crock in Washington, with Michele Galen in New York and bureau reports

SOFTWARE

OH, MICROSOFT. POOR MICROSOFT

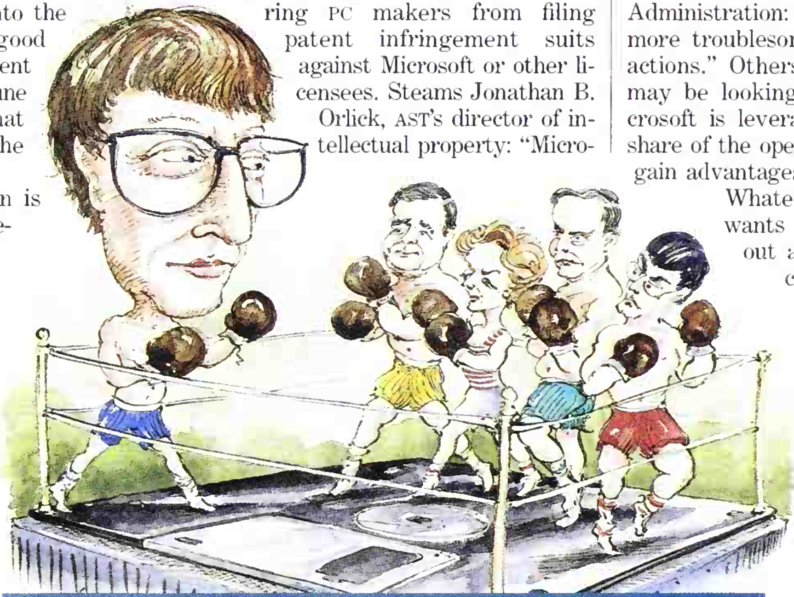
Why even Howard Stern is on its case

It has been a tough 1995 for Bill Gates. On June 8, news broke that the Justice Dept.'s antitrust czar, Anne K. Bingaman, is looking hard at Microsoft Corp.—again. Just days earlier, IBM CEO Louis V. Gerstner Jr. went on the offensive against the software developer by masterminding a merger with Lotus Development Corp. Heck, even radio host Howard Stern got into the act. "I think this is a good move for IBM," the irreverent shock jock sniped on his June 12 show. "I don't want that guy Bill Gates to rule the world."

Whether the motivation is fear, envy, or righteous desire for fair play, Microsoft is under attack. In recent weeks, it has suffered a surprising series of setbacks (table). IBM's June 11 Lotus deal may cause Microsoft real competitive problems down the road. Justice opposed Microsoft's merger with Intuit Inc., which would have made it a powerhouse in personal-finance software. Microsoft awaits word on its appeal of federal Judge Stanley Sporkin's rejection of a July, 1994, consent decree with Justice—which was widely considered a win for Microsoft.

FISHING TRIP. And now, federal trustbusters have launched a fresh investigation into the software giant's new online service, Microsoft Network—with the European Commission mulling a probe, too. The main concern: Will Microsoft gain an unfair advantage if it is allowed to include access to Microsoft Network in its Windows 95 software, due out Aug. 24? Including the two together would mean any user could subscribe to the network with a click of a mouse. Market researcher Jupiter Communications Co. estimates the move would let it sign up 200,000 subscribers per month in its first year, more than double the number if it were sold separately.

Justice, meanwhile, is widening its probe and has subpoenaed computer makers—including Compaq, Apple, IBM, Dell, and AST Research—seeking information on Microsoft's Windows 95 licensing deals. One concern: a clause barring PC makers from filing patent infringement suits against Microsoft or other licensees. Steams Jonathan B. Orlick, AST's director of intellectual property: "Microsoft is trying to set itself up as the worldwide clearinghouse of patents."



GUNNING FOR GATES

Recent events that have put Microsoft on the defensive:

JUNE 11 Lotus agrees to be acquired by IBM for $3.5 billion, creating a formidable rival to Microsoft in the market for software that lets PC users work together on a network.

JUNE 8 Word leaks that the Justice Dept. is again investigating Microsoft. At issue: whether Microsoft is breaking antitrust laws by bundling its new online service with the Windows 95 operating system it plans to introduce in August.

MAY 20 Microsoft abandons its $2.1 billion merger with Intuit after the Justice Dept. files suit blocking the deal.

Microsoft seems unperturbed. "To us, we really try and view this as a nuisance more than anything else," says Russell Siegelman, general manager for online services. The company contends that including access to Microsoft Network in Windows 95 is simply an effi-
cient way to distribute the produc
notes the items will be sold separ
The price of Windows 95 doesn't in
the monthly online subscription fee.
William H. Neukom, senior vice-p
dent for law and corporate affairs:
have thought about this for some p
of time and feel our position is d
sible." And the patent clause PC ma
are griping about? Microsoft says
just a way of preventing unneces
litigation between licensees.

BIG HURRY. Who will prevail in the l
squabble? Antitrust experts are spl
whether Justice is on solid legal gr
Some see the case as hard to prove,
en that Microsoft is not yet even i
nascent online business. Says Willia
Baxter, antitrust chief during the Re
Administration: "I find this one a
more troublesome than [Justice's]
actions." Others, however, say Ju
may be looking more at whether
crosoft is leveraging its dominant
share of the operating-system mark
gain advantages in other markets.

Whatever its rationale, Ju
wants to move quickly. It
out a flurry of subpoen
companies on June 5,
ing for informatio
June 9. Insiders
Justice is reques
that the inform
come in the for
declarations—a
that would mak
easier to go to c
right away. Exp
theorize that inv
gators want to ma
decision before Mi
soft launches the o
service in Windows 9

Siegelman says M
soft could pull Micr
Network out of Win
95 if it has to, but ha
contingency plan to d
"We're not fixated on
solution," he says. "W
fixated on moving ah
But if the feds' scru
of Microsoft contin
the company clearly
be forced to slow
moves into new mark
"There are complaints against Micr
lined up as far as you can see,"
Gary Reback, an attorney who he
persuade Sporkin to reject the con
decree. Not quite. But to Bill Gates t
must be days when it seems that w

By Kathy Rebello, with Peter B
rows, in San Francisco and with M
Lewyn in Washington

FT(WARE) IN E HEAD?

I isn't the only one to pay rly for a top program maker

GERSTNER AND MANZI: *Lotus will cost IBM more than 10 times Notes' revenues*

SETH RESNICK

o fine: IBM won. It took just one week of relatively painless negotiations. On June 11, Chairman Louis erstner Jr. cheerfully announced Big Blue would indeed acquire Lo- evelopment Corp. All it had to do keep Lotus Chairman Jim P. Manzi s a senior vice-president—at least orarily. And shell out $3.5 billion.

e deal immediately raised one nag- question on Wall Street: What justify such a lush valuation? After ll, IBM will pay $64 a share for a any whose stock had been stuck e low 30s. The price is four times s' 1994 revenues, and IBM will write ome $1.8 billion in goodwill after a ime charge.

M-Lotus isn't the only software deal ng eyebrows: Valuations in software mergers have gone through the Late last year, database maker Sy- Inc. acquired software hotshot ersoft Corp. in a deal valued at $1.3 n—roughly seven times Powersoft's ected $185 million in 1995 sales. On 25, Computer Associates International Inc. announced it would pay $1.78 n, more than three times revenues, Legent Corp., a developer of sys- management software. Last fall, osoft Corp. tried to buy Intuit Inc. 1.5 billion—almost seven times lag- revenues. The deal fell apart—not use the price was too high, but be- e Microsoft chose to avoid a pro- ed Justice Dept. antitrust probe.

hat's going on? Chalk it up to the lly changing nature of the software ess. Once brimming with small and ize companies, each with a specialty, the industry increasingly is dominated by big players—bent on getting bigger still. "What's clear is that size and scale are becoming critical," says Bruce D. Smith, a technology analyst at Morgan Stanley & Co. Software makers are finding they need a range of products to compete with Microsoft and to provide the soup-to-nuts "solutions" customers prefer.

With ambitious software makers scouring the field for potential targets, demand is driving up prices. Indeed, Sybase shares jumped 14% on June 14, to $28.50, on speculation that it had become a target of either IBM, Sun Microsystems, or Microsoft. Such deals allow big players to get new products in a hurry: It's faster and easier to buy into a new technology than to spend years and huge sums of money developing products. "It's not as much about acquiring a revenue stream as gaining quick entry into markets," says Jeffrey Tarter, publisher of *Softletter*.

That certainly was the case for IBM. Although it sells $11 billion worth of software a year, it has struggled to develop products for the PC and client/server markets. It considered spending hundreds of millions of dollars to develop its own product to compete with Lotus' Notes groupware, say insiders. But such a product would have taken years to complete—and IBM wasn't even sure it could market the package effectively.

With the Lotus acquisition, IBM gained the top spot in the highly strategic groupware segment with the stroke of a pen. It also gained a team of developers with more than a decade of experience developing Notes. However, IBM paid more than 10 times Notes' revenues. The bet is IBM can sell more of Notes than Lotus would have on its own—and that will drive the sale of all sorts of software, services, and even computers.

STRATEGIC VALUE. Ultimately, IBM's stock recovered from the initial hit it took after news of the deal. Not all the recent deals have been as well received, though. Analysts say Sybase overpaid for Powersoft, a maker of development "tools." And Charles H. Federman, chairman of investment bankers Broadview Associates, characterizes CA's buyout of Legent as simply "taking a competitor out." Charles B. Wang, CA's chief executive, says Legent speeds up his move into distributed computing. "It's a fair price," he says.

What determines "fair" value? It comes down to what is strategic. Microsoft, for example, dominates in crucial desktop operating systems and office applications "suites," and its market value is a massive $50 billion—10 times revenues. Novell Inc., the $2 billion leader in network operating systems, has a market cap of $7 billion. In strategic deals, conventional valuations may be meaningless—and IBM's entry into groupware with Lotus just may qualify. "If IBM is successful in driving Notes to dominance, then they stole the company," says Morgan Stanley's Smith. $3.5 billion may be a bargain after all.

By Amy Cortese in New York

LDEN HANDSHAKES

Premiums paid in recent software acquisitions, based on targets' share prices

		—SHARE PRICE—			
GET	ACQUIRER	BEFORE**	AFTER	PREMIUM	DEAL VALUE
TUS	IBM	$31.50	$64.00	103%	$3.5 billion
GENT	COMPUTER ASSOCIATES	$27.75	$47.95	73%	$1.8 billion
TUIT	MICROSOFT*	$42.25	$77.08	82%	$1.5 billion
WERSOFT	SYBASE	$58.00	$77.40	33%	$875 million

days before announcement

*Deal dropped

DATA: BROADVIEW ASSOCIATES LP

CONSULTING

MEMO TO GEMINI: READ THIS BOOK

Has the consultant ignored its own advice?

In two frenetic weeks this spring, Gemini Consulting Co-Chairman James N. Kelly whipped through eight U.S. cities promoting his new book, *Transforming the Organization*. The consultant addressed dozens of attentive audiences on his specialty: How to run a company more effectively.

Before taking Kelly and his co-author, Gemini Senior Vice-President Francis Gouillart, up on their counsel, though, readers might be wise to examine Gemini itself. According to high-ranking insiders, recent internal company projections say 1995 global revenues for the Morristown (N.J.) firm could fall by as much as $100 million in 1995, from last year's $551 million. After earning roughly $40 million before bonuses and taxes in 1994, the sources say, Gemini could lose upwards of $25 million this year.

CLEAR OUT. Now, there are growing signs of management turmoil at Gemini. In mid-May, amid rising tensions between Gemini and Sogeti, its Paris-based parent, David Teiger, Gemini's popular former CEO and chairman and the driving force behind the firm's remarkable earlier success, was given less than a week to clear out his office, say many insiders. Meanwhile, with scores of Gemini's U.S.-based professionals sitting idle, Kelly laid off 8% of Gemini's 1,700 consultants soon after returning from his book tour.

TRANSFORMING
THE
ORGANIZATION
FRANCIS J. GOUILLART
JAMES N. KELLY

Kelly dismisses the turmoil as a "minor blip in the journey of our institution." Gemini Chief Operating Officer William Wallace insists that 1995 revenues will be "flat" rather than down. (He refuses to discuss earnings.) But interviews with more than a dozen former and current Gemini consultants paint a picture of an unhappy young company that has made many of the basic managerial mistakes its consultants are paid to help corporate leaders avoid: It expanded too quickly and too much in the mid-1990s and badly misjudged its core market.

Originally formed by Sogeti from two companies four years ago, Gemini is now the world's fifth-largest consultant, with consulting revenues topping those of better-known rivals such as Boston Consulting Group and Bain & Co., according to Gartner Group, a Stamford (Conn.) research outfit.

At first, Gemini could do no wrong. Winning clients such as Union Carbide, Monsanto, and DuPont in the early 1990s earned it a reputation as a world-class reengineering firm. As global enues grew 88% from 1991 to 199 consulting staff nearly doubled.

Over the past year or so, how Gemini has run into ous problems attrac new American clie U.S. revenues were slightly, to $260 milli 1994—and many insi say they're expecte fall sharply this year. lace denies that, and la ly blames the market Gemini's slowdown: ' U.S. became overcrov with consultants, pote clients began to deal change issues in-house, pricing became very ag sive."

But Gemini is virt alone in this v "There's been absolu no slowdown in the re neering, business-tran mation, change-man ment, or whatever-you-w to-call-it market," says James Cha chairman of consultant CSC Index. ner Group predicts that the reen ing market will more than doubl $8.7 billion, by 1999.

The real problem: Insiders and mer consultants say that Gemini h differentiated itself from its com tors. Although it has successfully he clients cut costs, the firm has strug to move beyond that niche. Expl one former staffer: "You can't weight forever." Current and for officials say that under Chief Ex tive Daniel J. Valentino, Gemini failed to convince potential clients

Practice What You Preach...

Gemini's "Four Rs" of Business Transformation, as outlined in *Transforming the Organization*

CEO VALENTINO AND CO-CHAIRMAN KELLY: A "MINOR BLIP"?

WHAT GEMINI SAYS	WHAT GEMINI DID
"**Reframing** opens the corporate mind and infuses it with new visions and a new resolve."	Gemini's failure to develop a viable strategy to attract new clients is causing earnings and revenues to fall.
"**Restructuring** is a girding of the corporate loins, getting the company to achieve a competitive level of performance."	Despite booming demand for reengineering advice, Gemini's billings tailed off, and competitors grabbed large contracts.
"**Revitalization** is about igniting growth by linking the corporate body to the environment."	Gemini's strategists failed to convince potential clients that the firm could help boost their revenues.
"**Renewal** deals with the people side of the transformation, and with the spirit of the company. It is about investing individuals with new skills and new purposes, thus allowing the company to regenerate itself."	As morale sank because of declining revenues—and fears that bonuses would fall—management was unable to stop defections. As problems deepened, Gemini abruptly cut 8% of its consulting staff.

Decision

"Our research is designed to improve the chances of clients who leave little to chance."

organ research managers, New York

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JPMorgan

it can implement growth strategies.

Certainly, Valentino has tried. Gemini has repositioned itself not just as a cost-oriented reengineering firm but as a "business transformation" expert. But the shift hasn't caught on. Notes a current Gemini officer: "You don't hear a lot of clients say, 'Whew, I need to be transformed.'"

Valentino and Wallace heatedly deny those charges. Gemini is "actually winning in the marketplace, since it can hit firms with both cost-cutting and growth," says Wallace. But potential clients aren't convinced. One major oil refiner that recently entertained proposals for a $1 million-plus consulting project termed Gemini's bid, "rigid, expensive, and unoriginal."

Teiger's hasty departure—he passed the CEO's title to Valentino in 1992—has done little to help morale. Sogeti Vice-Chairman Michel Jalabert denies that Teiger—who remains chairman emeritus—was forced out. Meanw
current and former partners say
executive Robert M. Howe, who c
ed Big Blue's consulting busines
among those Valentino wants to
to bring new ideas to Gemini. W
irony: a consulting firm—helpful
sider to companies in trouble—
must find an outsider to get it
on track.

By Willy Stern in New York, Gail Edmondson in Paris

TRADE

BUY OUR CAR SEATS, JAPAN, OR IT'S WAR

The real beef is over auto parts, but suppliers lack solidarity

MADE WHERE? *Californians working on Toyota frames*

For weeks, Japanese and American officials have been exchanging fightin' words in their trade spat over autos. Now, unless negotiators unexpectedly patch together a deal in a last-ditch round of talks in Geneva on June 22 and 23, Washington will impose stinging tariffs on 13 Japanese luxury models in late June. Japanese carmakers and their U.S. dealers—facing layoffs and possibly billions in lost sales—are fuming. But the fireworks obscure the core issue in the dispute. Says Economic Strategy Institute President Clyde V. Prestowitz Jr.: "This is really a parts issue, not a car issue."

That's right: The U.S. is about to enter a trade war over car seats and shock absorbers. Moreover, U.S. parts makers, predictably, are divided about the wisdom of the government's tactic. Some, like Sean Traynor, CEO of Garden State Tanning Inc. in King of Prussia, Pa., say they would rather the U.S. stayed out of their business. The company laid off 650 workers when Toyota Motor's Lexus division, citing the looming tariffs, canceled its leather upholstery contracts. Other suppliers applaud Clinton's stance, arguing that in the long run it will mean more business. "I think the U.S. government is doing the right thing," says Borg Warner Automotive Inc. Chief Executive John F. Fiedler.

Why are auto parts the central issue? The Clinton Administration knows it can do little to ensure higher U.S. car sales in Japan until the Big Three produce more of the right-hand-drive models that sell there. But that doesn't apply to U.S. parts. Even though U.S. companies build plenty of components that easily could be used in Japanese cars, U.S. imports account for less than 2% of Japan's $107 billion parts market for new cars and only slightly more of its $23.3 billion aftermarket. Especially given the dollar's fall vs. the yen, says Kaiser Aluminum & Chemical Vice-President Robert E. Cole, "we ought to be getting more business than we are."

The Administration could get a quick win by forcing open the Japanese afterma
The target: complicated regulat
hatched by the Transport Ministry
force consumers to use parts man
tured by Japanese companies. Ten
Automotive figures such rules have
duced its sales of Monroe shock abs
ers by $135 million over the past dec
Indeed, despite 30 years of effort,
roe's share of the Japanese afterma
remains stuck at 5%, compared with
in Thailand, a market it entered in

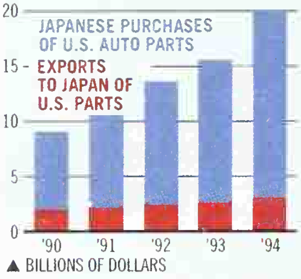
TARGET MET. The Japanese argue
Americans are simply greedy. Afte
back in 1992, Washington extract
commitment from Japanese carma
to nearly double their purchase
U.S. parts, to $19 billion, by Ma
1995, a target both sides agree
hit (chart). But Japanese import
U.S. parts have stayed low, w
Japan's parts exports to the U.S. g
16% in 1994, to $14.3 billion, des
the high-flying yen
just doesn't make
sense," gripes a se
U.S. parts executi

Not all U.S. su
ers are so critical of Japan. "We're
ting more opportunities on some J
nese vehicles," says Marvin L. I
executive vice-president in charg
GenCorp Inc.'s automotive operat
who opposes sanctions. Many supp
argue that the high
eventually will f
Japanese companie
start buying more U
made parts for t
U.S. factories. But
short of a trade
that spirals out of
trol, most only se
upside to the Adm
tration's hard-line
tics. Giving Japa
strong nudge, they
ure, can't hurt.

*By Kevin Kell
Chicago, with Zac
Schiller in Cleve
and Edith Updik
Tokyo*

SMALL CHANGE?

Japanese companies are boosting purchases of U.S. parts, though mainly for use in U.S. plants



DATA: JAPAN AUTOMOBILE MANUFACTURERS ASSN.; MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY

male bowerbird selects feathers, flowers and other small objects in its favorite colors to set an attractive stage for its courtship.

What could be more natural than making a concerted effort to appeal to those we'd like to win over? For the bowerbird in search of a mate, it's a simple law of nature. A law that's just as applicable when it comes to launching and marketing new products.

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of trend-spotting at Schott-Zwiesel

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SCIENCE

DARWINISM AND THE INTERNET

Why scientific journals could go the way of the pterodactyl

HARNAD: *He and other scientists say journals are too slow*

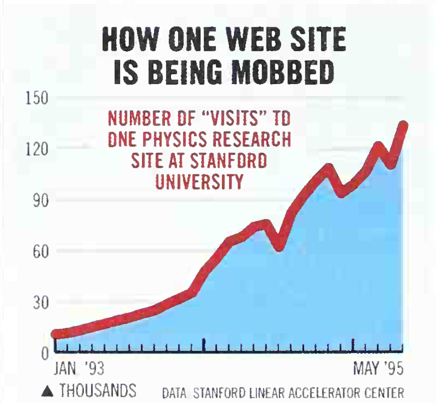
Stevan Harnad does not look like a revolutionary. But this distinguished researcher and director of the cognitive sciences center at Britain's University of Southampton admits he's urging the virtual overthrow of one of science's most cherished institutions: print journals. With Internet usage exploding, Harnad and a growing legion of scientists say the venerable scientific journals are just too slow. They are urging scientists to post research papers electronically first, and only then submit them to journals.

It's a radical notion that is being advanced at conferences and, of course, on the Net. If it succeeds, it could dramatically change—and perhaps weaken—the traditional process by which refereed periodicals vet research and shape entire fields of science.

ON GUARD. Not surprisingly, the publications already are pulling up the drawbridge. On June 22, an editorial in the *New England Journal of Medicine* will lay out its stance. *NEJM* will "apply the same rules to Internet that apply to publishing anywhere else," says editor Jerome P. Kassirer. Translation: It won't consider articles previously published, including on the Internet.

This is no small dispute. The development of electronic publishing is rocking the $4 billion technical publications industry, which includes roughly 50,000 peer-reviewed serials. Journals want to retain their prestige and franchises, yet economics—and agitation by scientists—are pushing them toward electronic formats. "Costs are up, postage is up, and ad revenues are down," notes Larry E. Joyce, president of publishing and multimedia for the American Medical Assn. "You can't grow enough new revenue sources. We've got to look at electronics as the future."

There already are 150 online-only scientific journals, and dozens of publications now exist in both print and electronic forms. In the coming weeks, some of the nation's best-known journals are going electronic. On June 23, *Science* will post its first Web page, offering a table of contents to the current issue, an editorial, and a discussion forum for scientists. Later, it hopes to add other features not found in the magazine. By August, the *Journal of the American Medical Assn.* will electronically publish abstracts of current articles and archived back issues. Britain's Royal Society of Chemistry is developing an electronic journal that will let readers rotate three-dimensional graphics of molecules on their computer screens—a valuable tool for chemists and biologists.



DATA: STANFORD LINEAR ACCELERATOR CENTER

But the trend that's raising hackl the spread of "preprint" Internet s ers—there are about 70 up so far- fering scientific papers that have yet been formally published. Pione by physicists, the preprints' speedy semination of ideas is being adopte scientists in other fields. Patricia K a librarian at the Stanford Linear A erator Center (SLAC) in Palo Alto, C says "the influence o Web on the physics munity has been nomenal," decrea travel and increa collaboration. Mon "hits," or requests SLAC preprint data f physicists, have gr about sixfold since (chart).

BUM STEERS. What ries some scientist the potential for the lication of flawed search if the vetting cess used by the jou is bypassed. Nobel reate and Rockefe University genet Joshua Lederberg tinely posts works progress on his own page, but he wor that no-holds-barred publishing could resu "low credibility, ins regurgitation." Jour such as *Science* and *NEJM* have int and sometimes protracted vetting pr dures that reject 90% of the arti submitted. Losing such procedures not be so bad in some disciplines- error in a physics string theory eventually be found and corrected. in medicine, wide and rapid dissem tion of bad advice could literally deadly.

Still, scientists such as Los Ala physicist Paul Ginsparg contend peer review can be just as rigorous unbiased—and far more efficient—w done electronically. Indeed, Harnad's view, *Psycoloquy*, is both electronic refereed. And many editors of tr tional journals admit they'll have adapt. "We've only begun to scratch surface of how much more effecti we can communicate," says Floyd Bloom, editor of *Science*. The way sc tific use of the Net is growing, he other journal editors will soon themselves scratching pretty hard.

By Joan O'C. Hamilton in Francisco, with Heidi Dawley London

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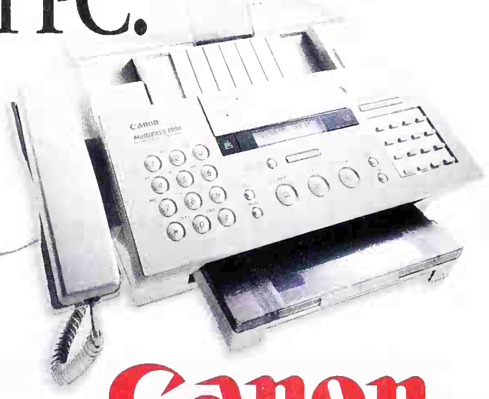
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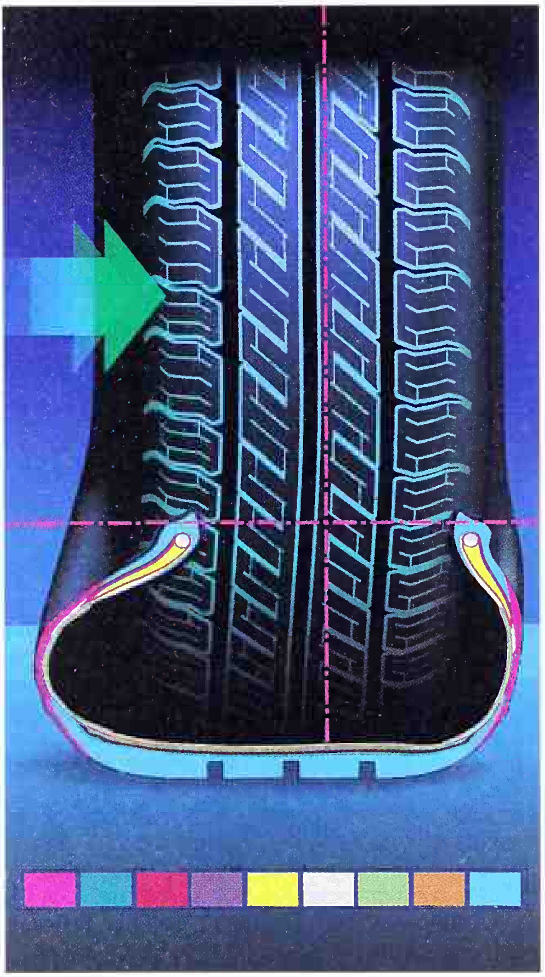

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In Business This Week

EDITED BY KEITH H. HAMMONDS

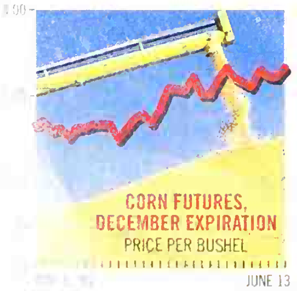
CARVING ITT INTO THREE SLICES

THE DEAL WASN'T A COMPLETE surprise: ITT's breakup had been rumored for at least a year. On June 13, though, ITT finally announced the plan. The conglomerate will be split into three publicly owned companies later this year. CEO Rand Araskog will head the new ITT Corp.—which will house Sheraton hotels, Caesars World casinos, and the information services businesses. What's left: ITT Hartford, the insurance business, and ITT Industries, which will include automotive, defense, electronics, and fluid technologies operations. "The big winners are the shareholders, the bondholders, and the employees," says CFO Robert Bowman. In fact, ITT shares jumped 8%.

CLOSING BELL

CORN SOUP

Missouri farmer Roger Stock usually cheers a rise in corn prices. But this year, floods swamped his 1,200-acre farm. He has plenty of soggy company: On June 12, the Agriculture Dept. cut its corn-production estimate by 8%, to 7.9 billion bushels. The forecast sent December corn futures up 2%, to $2.85 a bushel; they were $2.62 a month ago. That's good news for farmers in states that escaped the rains. Notes Stock: "I guess they can go buy themselves a new pickup."



BLOOMBERG FINANCIAL MARKETS

MESA'S GAS FIELD GOES BEGGING

BOONE PICKENS' MESA HAS $1.2 billion of debt clogging up its books. It also has its rich Hugoton gas field in Kansas. Solution: Sell the field, settle the debt. Problem: No one will pay what Pickens wants. On June 12, Mesa announced it had received no acceptable offers; the highest was $750 million. Now, the company may divvy the property up to attract smaller buyers. It's also reviewing "other financing alternatives," such as debt restructuring. Mesa has enough cash to make debt payments of more than $210 million during the next year, but the squeeze looms in 1998, when $654 million is due.

GRACE SLOUGHS OFF ITS MEDICAL UNIT

CONSTANTINE HAMPERS LOST out again. W. R. Grace opted on June 14 to spin off National Medical Care, its kidney-dialysis and home-health-care subsidiary. In so doing, it spurned a $3.5 billion buyout proposal by Hampers, NMC's chairman, who already lost a bid to head Grace itself. The company also passed over an offer from rival Vivra. Instead, NMC will pay Grace a $1.4 billion dividend, which Grace will use to pay down debt. Hampers and NMC management are expected to remain at the new company: They got stock options worth 6.6% of NMC's shares.

HEADLINER: LARRY SUMMERS

RUBIN'S NEW RIGHT ARM

At MIT and then Harvard, Lawrence Summers, 40, was known for the scope of his economic work: unemployment, taxation, and the efficiency of financial markets. Now, Summers is getting a policy job to match.

On June 13, Summers was nominated to replace retiring Deputy Treasury Secretary Frank Newman. In most Cabinet departments, the No. 2 person runs the bureaucracy. That's not Summers' plan. He intends to hang on to much of his former portfolio as Treasury's top international representative. With his new job, he'll also be involved in budget, tax, and financial policy—all familiar from his pre-Washington life.

Back then, Summers called for boosting savings and creat- ing incentives fo private investment. Now, he'l have to be mor circumspect: Such favorite no- tions as a tax cred it for capital investments won't fare well in a White House hell-bent on reelection. But Summers is tight with Treasury Secretary Robert Rubin, and his interest in the economic aspects of social issues chime with Rubin's strong social conscience. Watch for Summers to spread his wings.

By Mike McName

A DREAM DEAL FOR BRONFMAN

GIVE EDGAR BRONFMAN JR. credit for getting back on the horse. Just days after failing to land superagent Michael Ovitz to head Seagram's new MCA entertainment unit, CEO Bronfman and DreamWorks SKG studio signed a deal Bronfman estimates could be worth $1 billion during the next decade. MCA gets a half-interest in two record labels being created by DreamWorks' David Geffen and the overseas and video distribution rights to films made by the studio's Steven Spielberg and Jeffrey Katzenberg. MCA also will pay $54 million for 2% of DreamWorks.

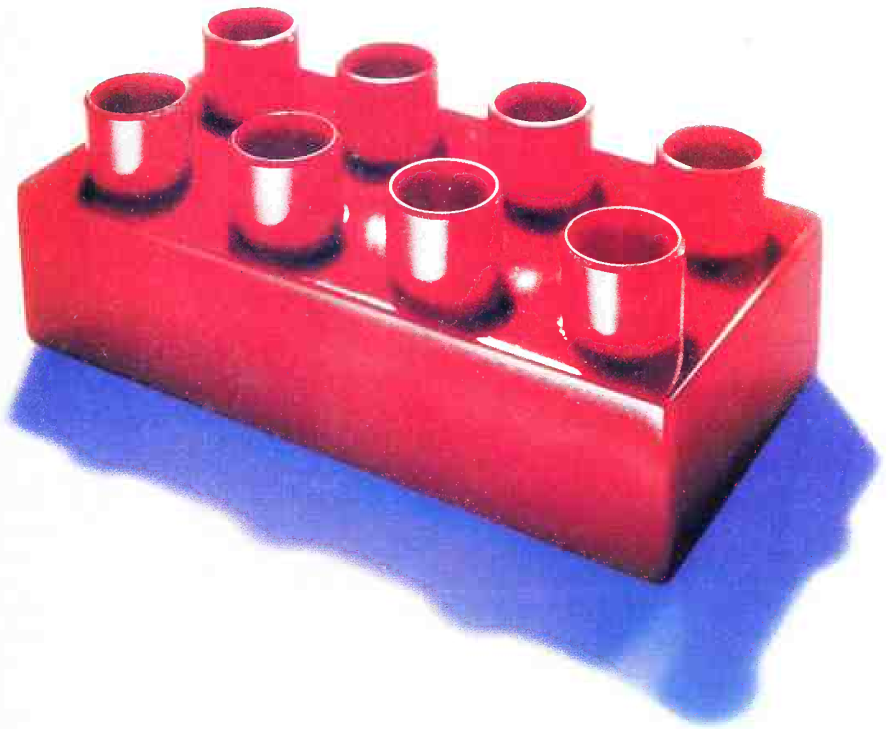
BANKERS TRUST TAKES ITS LUMPS

NOTHING LIKE KICKING A bank when it's down. Two months after Bankers Trust New York reported a $157 million first-quarter loss, Moody's Investors Service announced it was lowering its rating one notch. The company's shares fell as much as 1¼ on news of t cut, its second this ye Moody's delayed the acti to analyze the bank's pro ability, says Managing Dir tor Christopher Mahon The conclusion: While or time events such as unfav able trading markets were major cause of the loss, we publicized client departu and lawsuits related to Ban ers Trust derivatives ha hurt them, too. "There h been some franchise da age," Mahoney says.

ET CETERA . . .

- Boeing won orders for new "stretch" 777 jets, wo a total of $3.1 billion.
- Sun, the oil company, w cut its dividend 44%, b back stock, and restructu
- Director Richard Braddo will make $3 million over t years for consulting to Lot
- Cor Therapeutics' Integ lin heart drug failed a k test. Its stock tanked.

"Building on to my system shouldn't require a degree in rocket science."



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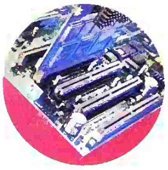

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Washington Outlook

EDITED BY OWEN ULLMANN

BOB DOLE'S DAYS IN THE SUN

Look closely at the granite features of Senate Majority Leader Bob Dole these days, and you'll see the faint contours of a smile. Small wonder. Prognosticators figured June would be Dole's Hell Month, a time when the moderate Senate produced a budget that diluted the House GOP's Contract With America. The predicted result: fresh doubts about the Kansas Republican's Presidential bid and a conservative groundswell for Texas Senator Phil Gramm.

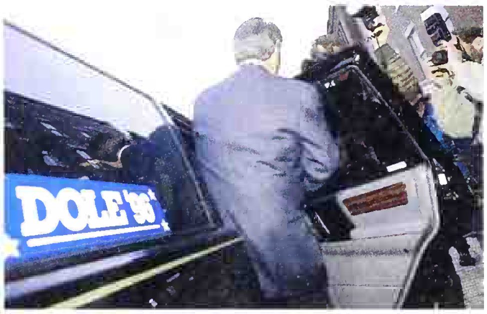
Instead, Dole is basking in the warm glow of what wags call "the Grammless Summer." By maneuvering to keep his rival off the conference panel that's shaping a consensus spending blueprint with the House, Dole has denied Gramm the spotlight. True, the Senate flinched on key Contract items like the House's big tax cut and radical legal reform. But Gramm has failed to turn Dole's pragmatism into a negative with hardliners. "Republicans are now more focused on deficit reduction than tax cuts," says GOP consultant Mark Goodin. "That helps Dole."

"ALL THE RIGHT MOVES." What's more, Dole's calculated shifts to the right on issues such as media morality and affirmative action have weakened Gramm's support among conservative activists—at some cost to Dole's credibility. Another unexpected plus for Dole: the late-starting campaign of Pete Wilson. The California governor once threatened to cut deeply into Dole's moderate support, but a throat operation has kept him out of sight and sound.

To appreciate Dole's surge, consider a June 5-6 Gallup Poll taken for CNN/USA *Today*. Dole led the GOP Presidential pack with 45%, compared with Gramm's 13%. The survey showed Dole beating President Clinton 50% to 46%. The GOP front-runner also holds a huge lead in New Hampshire, where Gramm has sunk to third place, behind commentator Pat Buchanan.

Of course, it would be folly to assume from early polls that Dole has the race sewn up. Cautions one former aide to s eral Republican Presidents: "We still don't know if he' Reagan or a Muskie." But pros who have seen Dole self- struct in previous White House bids are impressed. "H making all the right moves," says a top GOP strategist.

Indeed, Dole is doing so well that his chief worry m be . . . Dole. The moderate has made some expedient conv sions that could haunt him. For instance, the bitter foe supply-side economics has suddenly embraced calls for a t cut. Likewise, Dole was never known for criticizing popu culture, yet in June he took a Dan Quayle-like blast at Ho wood "depravity."



HAPPY TIMES: *But flip-flops may haunt him*

Dole also tried to woo National R Assn. members by vowing to overtu Clinton's 1994 assault-weapon ban. A despite past support for affirmative tion, he now favors eliminating pre rential-hiring programs. "I don't th this is a killer issue for us," scoffs D pollster Bill McInturff. "Our answer 'That was yesterday, this is today. Le talk about America's future.'"

Privately, some Dole aides fret t he'll be hammered by GOP oppone for recent policy shifts, then have square the New Dole with the Old Dole against Democra critics during the general election. "Clearly, Dole has f flopped on issues," concedes one adviser. "That makes hi lot like George Bush—a man without a vision."

Still, the prospects of debating Bill Clinton over flip-fl doesn't exactly make Dole tremble. "Dole's position on thi like affirmative action has evolved," says Bill Lacy, Dole's d uty campaign chairman. "But so have other Republica The main thing is, he has proven that he will not implo and he's alone [among the GOP field] in the Presidential Cir We'll take that for now."

By Lee Walcz

CAPITAL WRAPUP

DEMOCRATS' TOP FUND-RAISER

►Direct-mail donations are pouring into the Democratic National Committee, thanks to . . . Newt Gingrich. Party fund-raising appeals portray the House Speaker as an extremist out to gut Medicare, student loans, and other middle-class benefits. The result, says DNC Co-Chairman Donald L. Fowler: a record 131,000 new donors in the first five months of 1995, up from 90,000 for all of 1994. The gifts—averaging $20—have helped the party make a dent in its debt, which stood at $4 million at the start of the year.

GOP MODERATES BOW OUT?

►Conservatives are rejoicing because three veteran GOP moderates may retire from the Senate next year. Capitol Hill sources say they are Mark O. Hatfield of Oregon, who blocked passage of a balanced-budget amendment; Nancy L. Kassebaum of Kansas, who has long talked of stepping down; and William S. Cohen of Maine, who is openly unhappy with the Senate's sharp shift to the right.

CONSERVING CYBERSPACE

►Conservatives who gripe that liber als control TV, vow to dominate cybe space. On June 29, the Heritage Foundation and *National Review* magazine will launch Town Hall on the Internet, a conclave for conserva tive groups from Americans for Tax Reform to the Family Research Council. Each cybercon will post its own multimedia home page on the World Wide Web. Net surfers will be able to tap into policy analysis, daily events, and political forums.

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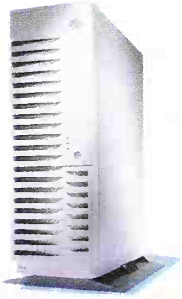

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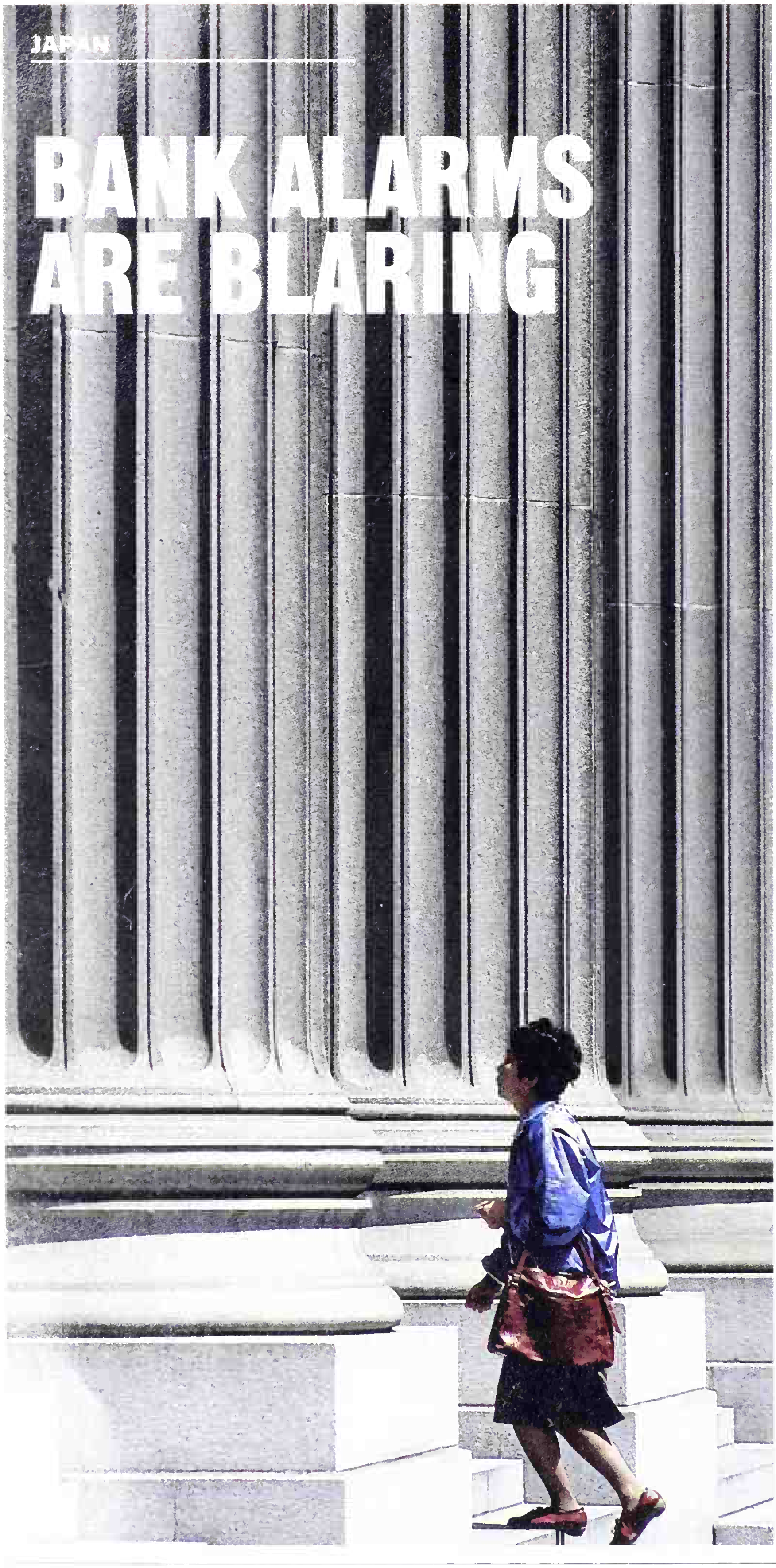
JAPAN

BANK ALARMS ARE BLARING



Tokyo may let the stock market crash to shock the public into supporting a massive bank rescue

Across Japan's banking terrain, la mines are exploding. Deposit are yanking their money out weakened lenders. The $155 lion housing-loan industry—the Ja nese version of America's thrifts—is tually insolvent. And the plunging st market, off 27% this year and 65% si its 1989 peak, has erased the value equity portfolios that big banks ho would help defray the cost of write- on huge quantities of bad and restr tured loans. Even the Ministry of nance (MOF), which spent years cloak the financial system's fragility, is visi more concerned. Among smaller pl ers, at least, "we will see a few ba failures," says Fuji Research Instit Chairman Toru Kisukawa.

So, are MOF's influential bureaucr finally dipping into Japan's $19.6 trill in financial assets to pay for a mass bailout of the nation's troubled lende Well, sort of. An estimated $1 trillion bad or barely performing loans— equivalent of 20% of Japanese gross mestic product—now burden lende books. And as the banking crisis deepened, the possible framework c far-reaching, government-financed p gram to refloat, merge, or restruct scores of troubled banks and hous lenders is starting to emerge.

SELLING WAVE. The rescue effort co involve new tax breaks on loan wr downs, direct infusions of governm cash, and the sale of at least $85 bill in government bonds to finance rel But the plan apparently isn't ready prime time. MOF's June 8 announcem of an emergency banking package, wh drawing parallels between the curr financial mess and the great Showa ba ing panic of the late 1920s, in the contained little substance. "They've nothing concrete on the table," says disgruntled senior banking analyst.

MOF's failure to come up with a f plan touched off a selling wave among cal life insurers and other investors, v hammered the Nikkei stock avera down 7%. That left the Nikkei stock erage below 15,000 for the first time si 1992. It's no wonder they're selling. M Vice-Minister Kyosuke Shinozawa t

CRUMBLING PILLARS: *Some smaller banks may soon go under*

iament on June 12 that the ministry
ld not use Postal Savings System
public pension money to boost the
k market—as it did during 1993—to
banks time to clean up their act.
OF is reluctant to provide further
right now for several reasons. Yen-
hing tax bureau officials—worried
ıt the cost of rebuilding earthquake-
tered Kobe, declining government
nues, and the future needs of an
g population—are fighting against
ing the public purse to the banks.
bankers themselves remain hugely
pular for reckless lending in the
s that sent property prices spiraling
of many consumers' reach. What's
e, MOF and the Bank of Japan
ed right into a scandal last Decem-
when they attempted a $2 billion
ut of two shady Tokyo credit coop-
ives with political ties. "There is
no distinction made between rescu-
corrupt managers and rescuing the
e financial system," admits Kengo
e, the central bank's deputy director
search and statistics.
ublic contempt for bankers hasn't
e it any easier for Prime Minister
iichi Murayama's wobbly coalition
uster the political backing for a
k cleanup. But a cleanup remains
ssary if banks are to resume lend-
and help lift Japan out of its eco-
ic doldrums. That's why analysts
MOF may be ready to let the stock
et crash to convince the public once
for all to support a publicly funded
ing rescue.
be sure, a stock market collapse
ld pose dangers for bourses world-
if Japanese investors start dump-
assets overseas to cover mounting

losses at home. A collapse would also breed more price deflation, even slower growth, and new pressures on the banking system if it were not followed quickly by a financial aid package.

Well aware of these risks, MOF may have to come up with $100 billion in aid to get its rescue plan going, estimates UBS Securities analyst Yukiko Ohara. Japan can certainly afford that much. The Postal Savings System alone has $2.36 trillion in deposits, while the Bank of Japan's cash reserves and government bond holdings exceed $747 billion. What's more, as the economy has slowed, worried consumers have been salting away more of their incomes. The savings rate among salaried households has jumped to 30% recently. That's twice the rate for the nation as a whole.

But tapping public savings won't be easy. Raiding the Postal Savings System would cause a public stir unless the government were able to win parliamentary approval for such a drastic move. And much of Japan's private savings are already tied up in stocks and bonds. Unless the Bank of Japan made certain that short-term rates stayed low, selling large sums of new government debt would probably push long-term interest rates up and tank the stock and bond markets. Indeed, analysts are betting that the central bank will have to start printing more money. It may cut its discount rate, already at a record-low 1%. And under legislation passed during a stock market crash three decades ago, the central bank has carte blanche to turn on its money spigot to help lenders.

In fact, financial authorities are preparing for some heavy lifting. Their first line of attack will be to shore up housing-loan companies—called *jusen*—which were set up in the 1970s to supply credit to homeowners. After a disastrous lending spree to golf-course and condo developers in the late 1980s, roughly 50% of the industry's $136 billion loan portfolio is now under water, figures J. Brian Waterhouse, a senior analyst with James Capel Pacific Ltd.

UNTHINKABLE. Any failures among the eight *jusen* would damage banks that are major shareholders and lenders to the industry. They include Sanwa Bank, Sumitomo Bank, Dai-Ichi Kangyo Bank, and Long-Term Credit Bank of Japan. Japan's 2,700 agricultural cooperatives have themselves lent $65 billion to *jusen*. The prospect of Japanese farmers, a big political constituency, losing their shirts is unthinkable in Japan. At least $40 billion in public money will be needed just to stabilize this sector, says Baring Securities (Japan) Ltd. analyst James P. Fiorillo. Bankers figure that bad co-op debts would be transferred to a vehicle like the Resolution Trust Corp. that would be funded by public money and Bank of Japan loans. Loans with any possible value might be repackaged into government-guaranteed bonds to be sold to the public.

The real trick for financial mandarins will be restarting the moribund real estate market, where commercial property prices have fallen 50% since 1991. But until Japanese leaders summon the will and the cash to get serious, the property market and the entire financial system will continue to sink. Unless a rescue plan gels soon, Japanese lenders, and perhaps global stock markets as well, could face some scary times.

By Brian Bremner in Tokyo

THE PRESSURE POINTS IN JAPAN'S FINANCIAL SYSTEM

USING LOAN CORPORATIONS With funding from banks and
icultural cooperatives, these companies—called *jusen*—made
36 billion in real estate loans. Half those loans are now unrecov-
ble. As many as seven of the eight housing loan companies are
uggling to survive, and the co-ops will need $40 billion to stay
at. The money could come from government bond sales.

RGE BANKS The top 21 lenders are lobbying the Ministry of
ance for huge tax breaks on loan-loss provisions. They also want
-interest loans from the Bank of Japan to cover the cost of tak-
over weaker players.

ALL BANKS Analysts figure $100 billion is needed to shore
the capital base of smaller banks in danger of failing. Funds
uld come from the government and Bank of Japan.

AL ESTATE With commercial real estate prices down 50%
m their 1991 peak, the government may have to start buying
d to restart the property market.

DATA: BUSINESS WEEK

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FOR RENT: *The real estate market is moribund*

TOM WAGNER/SABA

COMMENTARY

By Robert Neff

NEEDED: A WHOLE NEW WAY OF CONFRONTING JAPAN

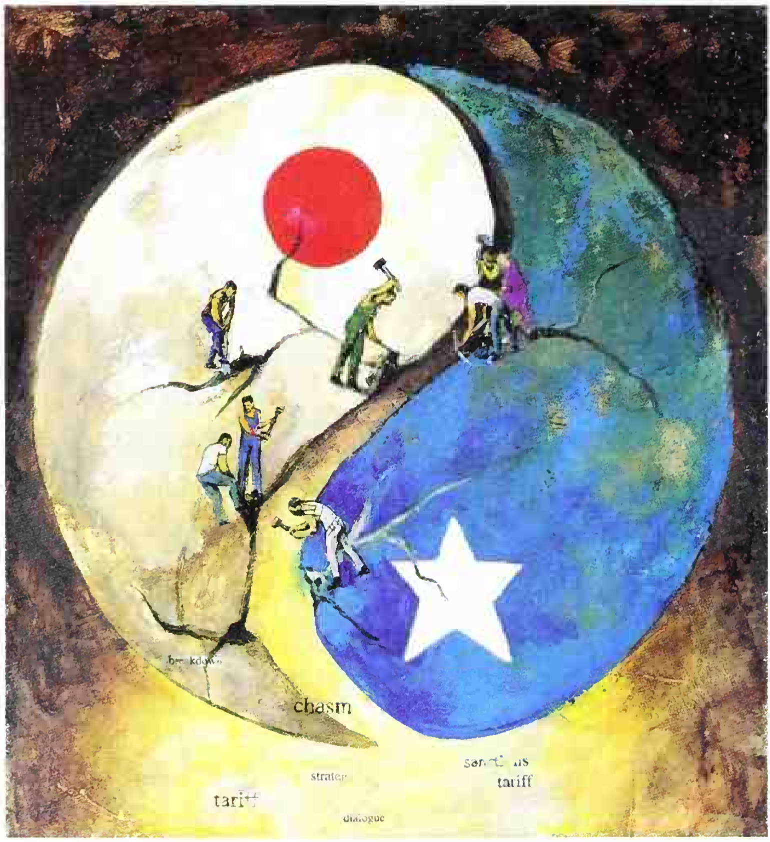
With June 28 fast approaching, the U. S. and Japan appear headed for the worst trade collision in postwar history. On that date, the Clinton Administration has vowed to slap $5.9 billion in tariffs on Japanese luxury-car imports unless Japan throws open its doors to U. S. autos and auto parts. Unlike past standoffs, genuine compromise looks unlikely.

Fifty years after the end of World War II, ugly recriminations, if not an outright trade war, could ensue. "There won't be a deal largely because it has become such an emotional political issue on both sides," says Stephen Usher, director of research at Kleinwort Benson International Inc. in Tokyo.

What has brought these two allies to such an acrimonious impasse? Japan's intractable $60 billion trade surplus with the U. S., at least two-thirds auto-related, is the most proximate cause. But more important is a fundamental shift in how the two countries view each other. Younger generations of a more nationalistic bent are in charge in both Washington and Tokyo, and they are less inclined toward compromise than their elders.

REVISIONIST HISTORY. To understand the roots of this conflict, go back to August, 1989, when BUSINESS WEEK ran a cover story called "Rethinking Japan." In that story, this writer applied the term "revisionism" to a new Western analysis of Japan. I described the revisionists as deviating from orthodox thinking, which held that Japan was only marginally different from the West and would eventually "converge" toward an Anglo-Saxon model. The revisionists argued otherwise, saying that until the U. S. understood just how different Japan was, conventional trade negotiations would never work. Although critical of Japan, the revisionists weren't your typical bashers. They knew and cared a lot about the country.

Perhaps because it suddenly had a name, revisionism's influence spread quickly. Indeed, the joke in Washington is that revisionism now is orthodoxy. That's largely because of its embrace by the Clinton Administration. From former Council of Economic Advisers Chairman Laura D'Andrea Tyson on down, Clinton's economic team started with the premise that Japan manages its economy differently and espouses a different form of capitalism.



But the Clintonite tactics aren't in keeping with the original spirit of revisionism. Why? Because they appear driven by domestic political pressures rather than by any deep knowledge of Japan. If they understood the economics and politics of today's Japan, they would know that tariffs on luxury cars simply aren't going to achieve a dramatic opening of the Japanese market. Despite the undeniable pain Japanese carmakers will suffer, they can survive and adjust. "It will not be a death blow by any means," says Kleinwort's Usher. So in a sense, Washington has taken on the intellectual trappings of revisionism to threaten a one-shot trade action of a very conventional sort.

What some revisionists counsel instead of the tariff club is a subtler, broader approach: Deal with Japanese company officials in the U. S., selectively yank foreign trade-zone privileges, and push more promising trade cases such as Eastman Kodak Co.'s claim that Japan's film market is closed. The U. S. government must be more coordinated and more targeted. In short, the U. S. has to devise a long-term, systematic means of competing with Japan, rather than expecting the Japanese system to suddenly break. "Rather than negotiate, the U. S. should change the environment," says Chalmers Johnson, president of the Japan Policy Research Institute in California and so-called godfather of the revisionists.

Issuing ultimatums to Japan's imperious bureaucrats is a waste of time and even counterproductive. Indeed, several close observers of the auto talks say Japan's carmakers lean toward cutting a "voluntary" agreement with the U. S. to buy

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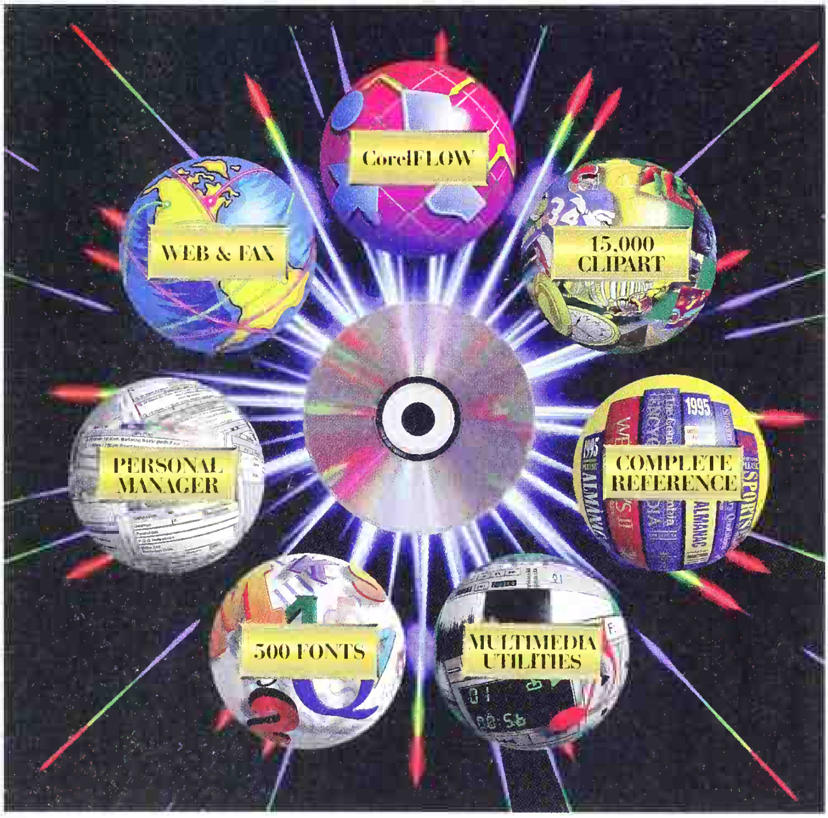

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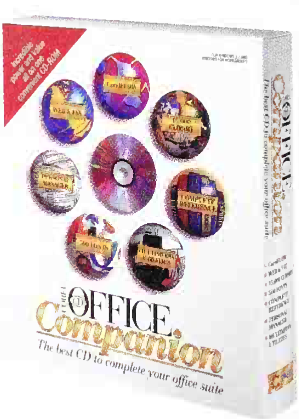

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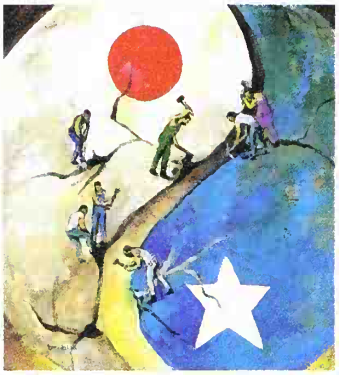
more American parts, but an increasingly militant Ministry of International Trade & Industry is vetoing any such deal.

It's this rise of a new breed of Japanese bureaucrat that's changing that nation's willingness to deal with the U. S. This is especially so at a time when Japanese politics is in disarray and bureaucrats call more of the shots. Senior bureaucratic posts are gradually being vacated by men who were cowed by America's World War II victory and beholden to its generous postwar treatment of Japan. Their posts are going to younger, outspoken nationalists, who don't want to kowtow to the U. S.



“Revisionist” thinkers now believe the U.S. has to devise a long-term, systematic means of competing with Japan, rather than expecting the Japanese system to change suddenly under threat of trade sanctions

Two impending promotions to key economic-relations posts have tongues wagging. Within the next few weeks, Kazuo Ogura, Japan's ambassador to Vietnam, will become deputy foreign minister for economic relations, and Eisuke Sakakibara, author of *Beyond Capitalism*, will move up to the position of director-general of the International Finance Bureau at the Ministry of Finance.

One senior U. S. official says Ogura's and Sakakibara's ascendance will result in a government that is “more contentious, more argumentative, less willing to look at Japan's own policies and own degree of market openness in a balanced way.”

“BEGGING DIPLOMACY.” Ogura, 57, and Sakakibara, 54, have unusual backgrounds as senior bureaucrats because they've written extensively and forthrightly under their own names. Ogura made waves with an article in 1991 that ridiculed America's demands for Japan's financial backing of the gulf war as “Begging Diplomacy.” He went on to write: “As soon as it's said that Japan and the U. S. share common values, Americans expect Japanese are becoming American. They think Japanese will and must act like Americans. But Japanese don't see it that way.”

Sakakibara's *Beyond Capitalism* [illegible] argued that special features of Japan's “noncapitalistic market economy” should be preserved. In this sense, Sakakibara acknowledges the revisionists' line that Japan's system is indeed different.

Uncharacteristic of Japanese officials, both men love debate. That may not be all bad for the U. S. “For the first time the Japanese will start talking turkey,” says E. Barry Keehn, an expert on Japan's bureaucracy at Cambridge University. “They won't be shoving things under the carpet so much.”

Ogura and Sakakibara echo this line. “I think it important that the decision-making process of diplomacy...should be as transparent as possible,” Ogura tells BUSINESS WEEK. “It is regrettable if my reputation is partly due to my un-Japanese outspokenness.” Adds Sakakibara, who earned a PhD in economics at the University of Michigan and later taught at Harvard: “I learned to become assertive and aggressive in the U. S.” More Oguras and Sakakibaras are waiting in the wings.

These men take exception with outside observers who argue that Japan must “change” to more closely resemble other advanced economies. Those outsiders say Japan must do that because the world's economies are being drawn into closer contact. What's more, they look at pressures inside Japan. The Japanese people don't fully share in the nation's wealth, its financial system is on the ropes, and its political leadership is “pre-modern,” in the words of one Japanese scholar. In these areas, Japan almost certainly will change, though slowly. “The Japanese change less quickly than just about anyone,” says Frank Gibney, president of the Pacific Basin Institute in California.

DIFFERENT STROKES. But that doesn't mean Japan will completely converge with other systems. The Japanese have plenty to be proud of. Poverty barely exists. Income is more equally distributed than almost anywhere else in the world. The country still has huge pools of savings and massive trade surpluses. Many emerging economies are adopting Japan's developmental model. “We are different,” says Yotaro Kobayashi, president of Fuji Xerox Co. “It's absolutely wrong to say we'll all eventually behave and think in the same way.”

So until autos, the Kodak case, a mounting civil aviation dispute, and other issues get solved, the two new political forces in Washington and Tokyo mean relations could get even rockier. All of which suggests the need for an evolution of revisionism from mere analysis to the creation of new prescriptions to supplant tired, orthodox tactics.

What might those be? Making sure that U. S. Administrations include senior officials who understand Japan and its language, nurturing an institutional history of U. S.-Japan relations to avoid getting fooled, and becoming much smarter at selling the Japanese people on how they can benefit from U. S. demands. Commonsensical as these ideas may sound, no U. S. Administration has gotten serious about any of them. In so doing, revisionism could help set the stage for quiet, successful U. S. engagement with Japan, instead of pointless trade wars.

Neff is completing an 18-year career with BUSINESS WEEK *and McGraw-Hill to become executive director of the American Chamber of Commerce of Japan.*

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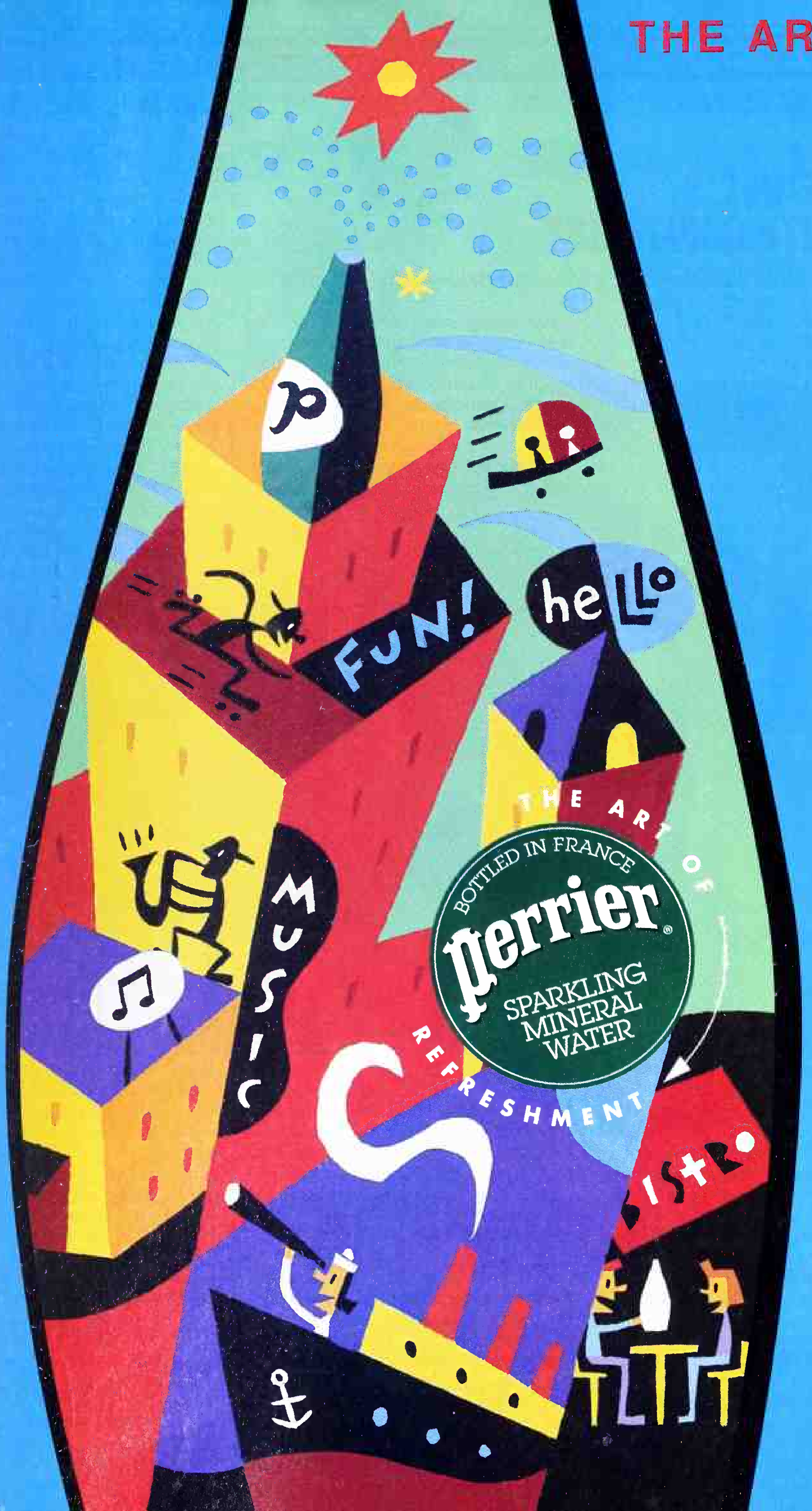
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CUBA

MEET FIDEL'S FAVORITE CAPITALIST

Sherritt's Ian Delaney is doing big–and risky–deals in Cuba

Ian W. Delaney, chairman of Canada's Sherritt Inc., is probably the only North American CEO who displays in his office a photo of his family with Cuban leader Fidel Castro. It's a fitting tribute to a relationship so close that Delaney is arguably Castro's best-loved capitalist. "Sherritt does business all over the world, but Cuba is my favorite," says Delaney, 51, adding that he is always warmly welcomed in Castro's offices near the Plaza de la Revolución.

THE AUDACIOUS IAN DELANEY

CURRENT JOB Chairman and CEO of Sherritt Inc.

BACKGROUND Born in Winnipeg, Man., in 1943. Finished high school but dropped out of university to go into business.

CAREER PATH Trained as an investment banker, he became president of Merrill Lynch Canada and later CEO of holding company Horsham Corp. He left in 1990 to wage a proxy fight to win control of Sherritt.

MOST DARING MOVE Plunged into Cuba in 1991, defying U.S. trade embargo. Sherritt is Cuba's largest foreign investor and largest oil producer.

No wonder. Since Delaney's first meeting with Castro in 1991, Sherritt has become Cuba's largest foreign investor and a linchpin in Castro's plans to rebuild his economy. Now Cuba's largest oil producer, Sherritt is exploring for "very large" oil reserves there, Delaney says. In December, he also set up a joint venture with Cuba's General Nickel Co. to mine, refine, and market the island's rich nickel and cobalt reserves. The venture, which earned $14.3 million on sales of $131 million in its first quarter of operation, could become "a world leader," Delaney says.

Talk like that has landed Sherritt in the center of Washington's efforts to tighten the noose on Castro. The U.S. Treasury Dept. is shortly expected to list Sherritt's Cuban ventures as "special designated nationals," meaning that they—like Cuban companies—would be barred from U.S. business dealings. On June 14, a Senate foreign relations subcommittee began hearings on a bill that would make it easier for U.S. companies to sue Sherritt for using expropriated Cuban property. Florida-based Consolidated Development Co., which once produced 40% of Cuba's crude, is preparing a suit.

Despite the U. S. trade embargo, Delaney's bet on Cuba has paid off handsomely so far. While U. S. law bars Sherritt from selling nickel or cobalt to U. S. customers, Sherritt's answer is to sell to the Japanese and Europeans. Last year, sales in Sherritt's metals unit rose 76%, pushing metals earnings up to $32.5 million from a loss the year before.

"DESPERATE." That, plus a fertilizer acquisition in Alberta, helped Sherritt earn $58 million on sales of $672 million: the best performance in its 67-year history. This year, earnings should soar 82%, says Toronto brokerage Wood Gundy Inc. Ironically, Sherritt has attracted U.S. investors, who hold some 30% of its stock and most of its bonds.

For all his admiration of Cuba, which he visits monthly, Delaney is hardly a radical. After growing up in Winnipeg,
he became an investment banker a
president of Merrill Lynch Canada
(table). After a stint at Horsham Co
he left in 1990 to launch a proxy fi
for Sherritt. The company was near
solvency because its metals refinery
closed and it had no nickel to refine

Even before the takeover, Dela
saw opportunity in Cuba, which v
facing economic collapse. Winning c
trol of Sherritt in Sept., 1990, he
proached the Cubans about a deal
refine their nickel and cobalt. "Our fir
cial condition was as desperate
theirs," he recalls. The Cubans were
ger to exploit Sherritt's refining tech
ogy, so in a meeting with Castro in e
ly 1991, the deal was sealed.

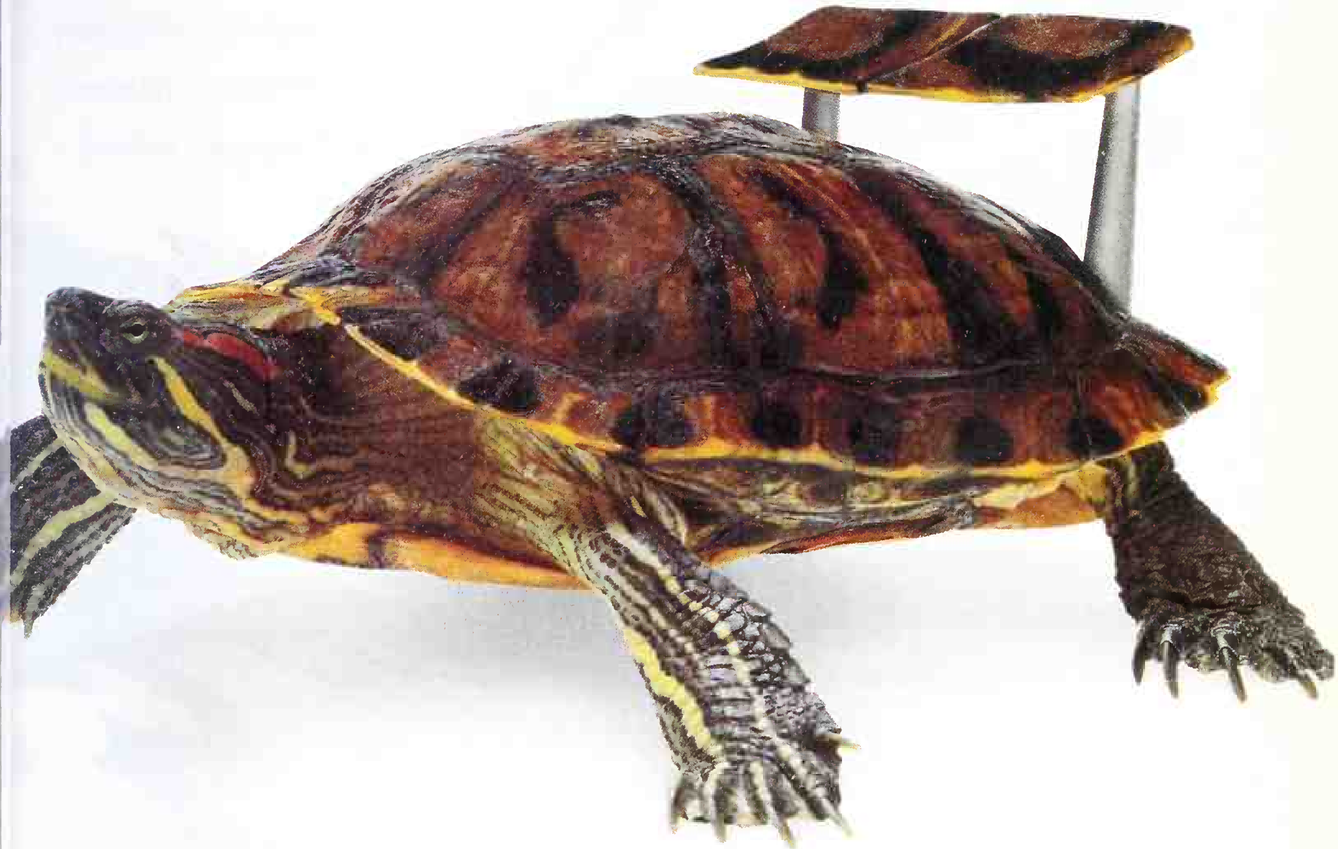
It was the beginning of a beaut
friendship. Sales of Cuban metal t
off, and last year Delaney propose
formalized joint venture. The 50-50 c
is the most sweep
that Cuba has sig
with a foreign com
ny. It's also a huge s
for Sherritt, which
lowed a Cuban er
neer to serve as
venture's first CEO.

Thanks to Sherri
technology, ore pro
tion at the ventu
plant in Moa R
Cuba, has almost d
bled, to over 20,
tons a year. Dela
may now boost re
ery capacity in Albe
"They'll be one of
world's lowest-cost p
ducers of nickel a
largest producers of
balt," says Tere
Ortslan, president
TSO & Associates,
mining research firm.

Of course, risks remain. Sherritt co
lose everything in Cuba if warnings
Cuban-American hardliners of a revo
tion restoring U.S.-backed national
come true. Even that "would not be
tal," Delaney says, because Sherri
fertilizer business accounts for 56%
sales and has no ties to Cuba.

In any case, Delaney is betting h
come out on top. Last fall, he not
the U.N. General Assembly voted
to 2 for an end to the embargo. W
such world backing, Delaney thi
Cuba will evolve toward a populist g
ernment. "The last people in the wo
those guys can afford to stiff," he s
with a smile, "are foreign investors.

*By William C. Symonds in Fort S
katchewan, Alta., with bureau repor*



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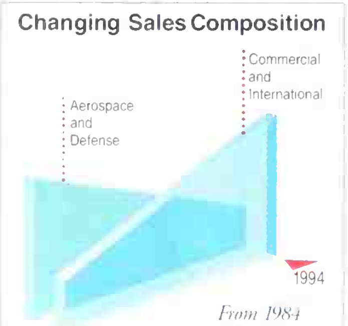

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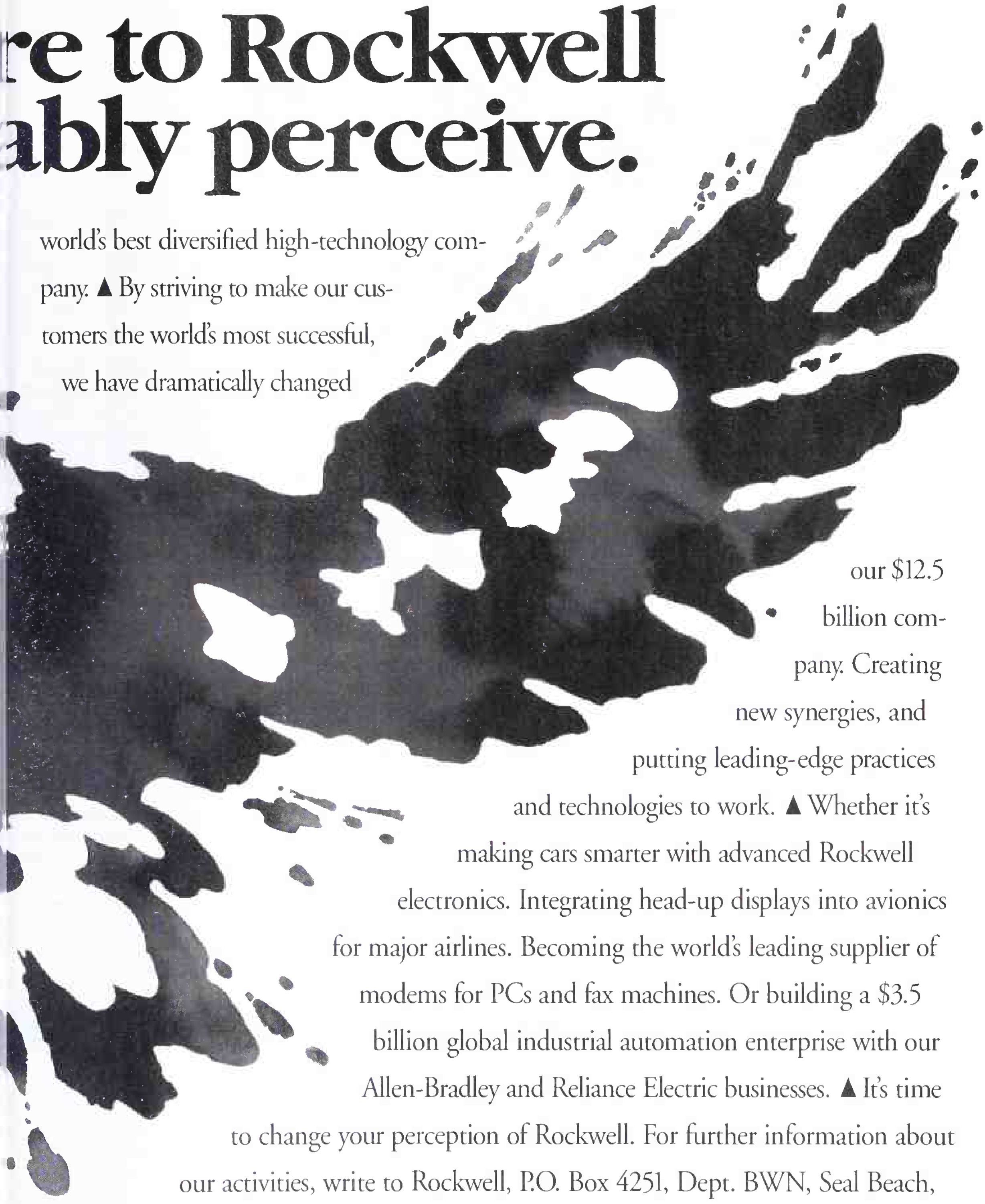

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WILL ARGENTINA SOON BE CRYING FOR ITS ECONOMIC GURU?

No one in Latin America is as closely identified with a country's success as Argentina's Economy Minister, Domingo Cavallo. His so-called Cavallo Plan, setting the peso at parity with the dollar, buried hyperinflation and contributed to strong economic growth in the early 1990s. Earlier this year, Cavallo headed off a run on the banks by rustling up $6 billion in credits from international lenders.

But the notion that Cavallo is indispensable is starting to haunt Argentina as the economy falters and he comes under fire for not doing enough to revive it. In recent days, the darkening economic outlook and rumors that Cavallo might leave his post have roiled the Argentine markets. Cavallo himself unnerved investors with erratic pronouncements on the economy and by whining that certain influential business figures wanted him ousted.

CAVALLO: *Under attack*

GREAT STRAIN. Predictions of Cavallo's demise have been common since he took office in 1991. He is a prickly man who irritates both executives and fellow Cabinet members. But it would be very risky for President Carlos Menem to allow him to go. Few people in Argentina or abroad believe that the fixed exchange rate against the dollar would survive Cavallo's departure. His going would probably trigger a renewed bout of capital flight like the one Cavallo fought off after the Mexican peso debacle this past December. "It would be traumatic, chaotic," says Buenos Aires-based analyst Carlos Rivas.

Although both Cavallo and Menem have said the Minister will be staying, the relationship between the President and his chief economic official is clearly under great strain as Menem prepares for his second term, which begins on July 8.

Despite Cavallo's accomplishments, Menem's aides, and even the President himself, have long resented Cavallo's receiving the credit for Argentina's big economic strides. C vallo's abrasiveness adds to his problems. Barely a we passes without his clashing with some official or politicia Menem has tried to make peace between Cavallo and his e emies in Congress, but it may not last. Even if the minist stays, Menem may use his new chief of staff to check Ca allo's free rein.

Even as discontent with Cavallo builds, Menem pro ably realizes that he still needs a fiscal and monetary dis plinarian at the helm. With $80 billion in fo eign debt to service, the government is goi to have to keep cutting costs to keep a $2 billion credit package from the Internation Monetary Fund on track. Concern is al growing about the state of provincial gover ment finances.

SEVERE SQUEEZE. But the temptation to bac track on austerity is growing. Cavallo is easy target for executives angry that th are not selling anything. Unemployment h already reached a record 14%.

Menem hoped that his big win in the ele tion on May 14 would boost the economy. A though bank deposits have risen slightly aft last winter's crisis, the swift return of capit and easing of the severe credit squeeze th Menem was counting on for a boost haven materialized.

To foreign investors, Argentina is becoming a critic test case for all of Latin America. With Mexico still flounde ing, if Argentina unravels, "confidence in the region as whole would be damaged almost irreparably for sever years," says Nigel Rendell, emerging-markets analyst f James Capel & Co. Rendell is telling clients to "unde weigh" Argentina. With such pessimism building, Mene would be playing with fire to let Cavallo depart.

By Ian Katz in São Pau

GLOBAL WRAPUP

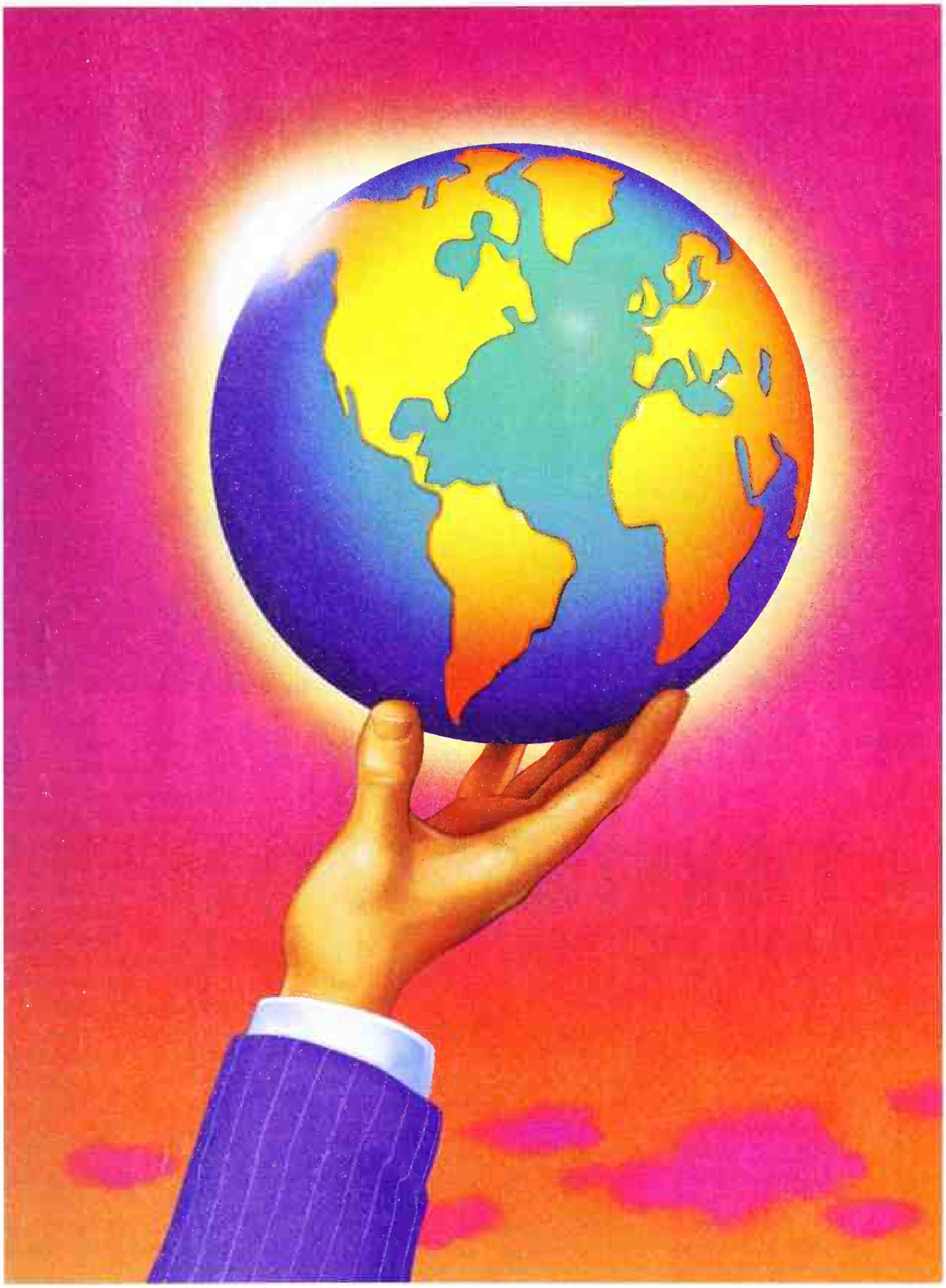
A SLIMMER DAIMLER

▶ Three weeks after becoming CEO of Daimler Benz, Germany's largest industrial company, Jürgen E. Schrempp pounced. Starting on July 1, he will downsize Daimler's corporate headquarters in Stuttgart radically, axing 200 of its 500 top executive jobs. Headquarters' role in the their operating divisions, including Mercedes-Benz, is likely to be reduced. Zurich-based ABB, often considered the model European company, has already made similar moves.

Schrempp wants to instill an entrepreneurial culture at the $74 billion group as well as cut costs. He has ordered Daimler's 1,700-strong central research and development staff to hike their productivity by 30% in the next three years. Another 1,150 in-house professionals, from lawyers to tax experts, may have to compete with outside providers to sell their services within the company.

VIETNAM BREAKTHROUGH

▶ With President Clinton likely to renew formal diplomatic ties with Hanoi this summer, the State Dept. is rushing to help U.S. businesses land deals in Hanoi. A lobbying boost from State, plus financing from ANZ Banking Group, helped Ellicott Machine Corp. International nail Vietnam's first capital equipment order from a U.S. company. Vietnam will purchase more than $10 million worth of dredg es and spare parts from Ellicott, a Baltimore-based maker of dredging equipment. Although it's tiny, Ellicot has a big name in Vietnam, where prewar vintage Ellicott dredges are still being used.



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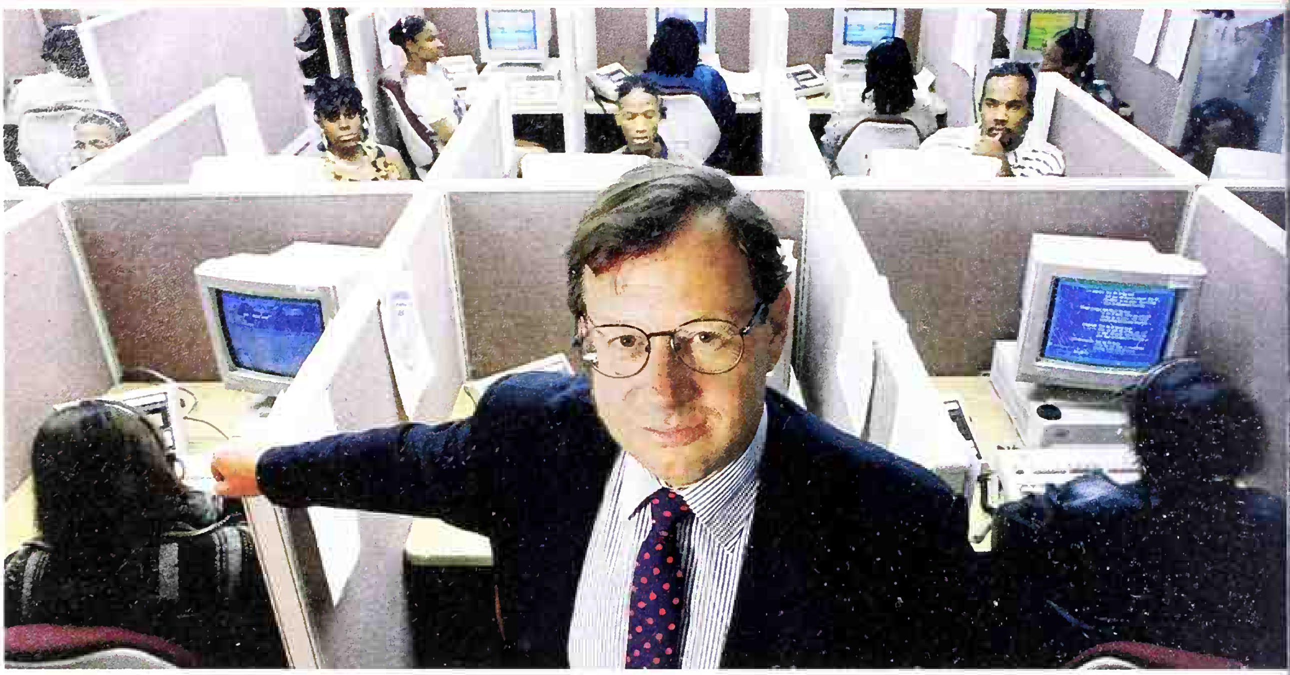


SHREWD AND DEFIANT: CEO ROSEN REVEL IN HIS TOUGH-GUY IMAGE

INVESTIGATIONS

WILL TICKETMASTER GET SCALPED?

The Justice Dept. and rivals question its dominance

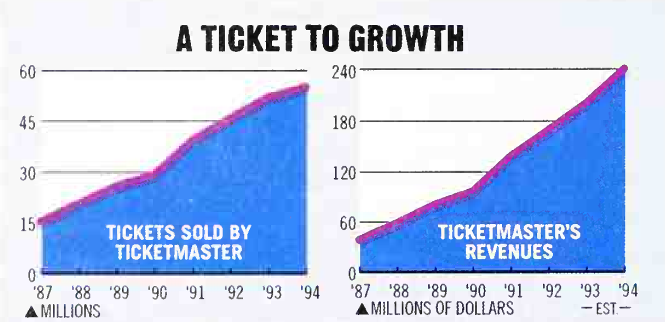
It is just before 10 on Saturday morning in Los Angeles. At Ticketmaster Corp.'s spartan offices on this early-June day, 90 men and women file in to take their places before rows of telephones and computer screens. Suddenly, a flurry of calls begins. In only 10 minutes, sales total $120,000 for tickets to the upcoming Bon Jovi rock concert and other events.

For Ticketmaster, the nation's largest distributor of live-event tickets, this is just another day. But it wasn't always that way. When President and CEO Fredric D. Rosen took the helm in 1982, Ticketmaster was a 25-person operation on its way to bankruptcy. "We rented office space in Los Angeles for six months because we didn't know how much longer we were going to be around," Rosen recalls.

Today, the privately held Los Angeles-based company is an entertainment-industry powerhouse. In 1994, Ticketmaster sold 55 million tickets—valued at an estimated $1.6 billion—to everything from a Barbra Streisand concert to New York Knickerbockers basketball games. Company revenues have grown 20% annually over the past five years, and last year, ticket sales for shows at 3,000 venues around the country brought in $240 million. Ticketmaster exclusively controls an estimated two-thirds of the major stadiums, arenas, and amphitheaters in urban centers—and provides ticketing for more than 50 major professional sports teams. Microsoft Corp. co-founder Paul G. Allen deemed the company so attractive that he paid $300 million for 80% of it in 1993. S Rosen, a blunt-talking ex-New York porate lawyer who is largely credi with the company's turnaround: "I m a business out of something that wa a business."

But it's how Rosen and his al made that business—and are holding to it—that now seems to be taking ter stage. The federal government, st law enforcers, and private litigants all questioning the legality of Tick master's dominance in the ticketing dustry. Would-be competitors say tempts to break into the business met with insurmountable obstacles— nasty intimidation tactics.

SOLO SHOW. Performers such as rock groups Stone Temple Pilots R. E. M. argue that the company's ul uitous power costs fans the most. Alt native rockers Pearl Jam put Tick master in headlines wl band memb appeared bef Congress l year complain that the com ny's steep f made tickets pricey for mostly teen fans. On June the group laun es its first conc



DATA: LAZARD FRERES & CO., TICKETMASTER, BUSINESS WEEK

without Ticketmaster—albeit most-
ı smaller locales. "We wanted to
New York and Los Angeles," says
l Jam's manager, Kelly Curtis, "but
just can't do that today without go-
hrough Ticketmaster."
osen, 51, steadfastly denies that he
is company has done anything im-
er. The CEO, who seems to revel in
ough-guy image, chalks up much
e grumbling to rivals' jealousy and
d. Ticketmaster's counsel, Frank
on at Cravath, Swaine & Moore,
isses charges as fallout from the
of Ticketmaster's opponents. "One
ie things we do in this country is
n to what celebrities have to say,
her or not there is any reason to
at," he says.
ISH. As for Allen, he's taking the
ism in stride. Like Microsoft, which
been accused for years of unfair
ket domination, big fish are easy
ets, he says. "That comes with the
tory. A lot of the controversy is
ed by folks who just don't know
the business operates," says Allen.
nd the other big investor, Chicago's
ker family, which owns Hyatt Ho-
Corp., has few qualms. The Pritz-
still hold 12% of the company after
ng the rest to Allen, Rosen, and
r Ticketmaster executives. "We're
than happy to have some of our
ey riding on [Rosen]," says Thomas
itzker.
o wonder. Ticketmaster has locked
he choicest promoters and sites,
as Madison Square Garden and the
t Western Forum in Los Angeles,
ugh lucrative, exclusive contracts.
n personally landed many of the
y deals by visiting cash-squeezed
a owners and offering them mon-
in some cases millions—as a guar-
e against their share of future ser-
fees. "He told us that he thought
as and stadiums were valuable and
an inventory of tickets and events
th paying for," recalls Michael R.
e, executive vice-president of the
dowlands Sports Complex in East
herford, N.J., a Ticketmaster client
1985. "That became very interest-
to us."
hese three-to-five-year deals, which
cally divvy up service fees among
etmaster, promoters, and venues,
re that Ticketmaster has ironclad
rol over ticketing for any rock con-
, circus, or sporting event held at
facility. In May, Ticketmaster won
contract for the Alamodome in San
onio by advancing the city $100,000,
alling $150,000 worth of box-office
ipment, and promising to spend
),000 a year promoting events.
erybody is in everybody else's pock-
says Peter A. Jablow, the ex-head of Ticketron, a rival acquired by Ticketmaster in 1991.

In addition, Ticketmaster has been shrewd in its selection of partners and licensees, cementing its presence throughout the country by teaming up with big players such as Ted Turner, owner of the Atlanta Braves and Omni arena; former Seattle Mariners owner George Argyros, who controls venues in the Northwest; and Abe Pollin, owner of the Washington Bullets, Washington Capitals, and their home arena.

TICKETMASTER DOMINATES TODAY...

- Controls tickets sold at 3,000 venues nationwide, including Madison Square Garden, Pontiac Silverdome, and Hollywood Bowl.
- Sells tickets to premiere live events, such as The Rolling Stones concerts, via phone orders or sales at 2,800 retail outlets.
- Has grown 20% annually for the past five years, with $240 million in 1994 revenues.

...AND HAS AMBITIOUS PLANS...

- Plans to begin selling airline tickets later this year through a new deal with Reno Air.
- Is selling tickets online in test trials on America Online. A web site offering tickets and show information is in the works.
- Currently in talks with MTV, QVC, and other media companies to launch its own home-shopping channel.

...BUT FACES MOUNTING LEGAL WOES

- Justice Dept. is investigating allegations that Ticketmaster engages in monopolistic, anticompetitive practices. A similar inquiry by the New York State Attorney General is under way.
- Class actions filed on behalf of consumers, including 14 being consolidated in St. Louis, charge the company with price-gouging and antitrust violations.
- Increasing pressure to lower fees from disgruntled performers such as rock bands Pearl Jam, Stone Temple Pilots, and R.E.M.

DATA: BUSINESS WEEK

On its way to preeminence, Ticketmaster went on a buying spree. The company acquired at least 12 of its most adroit rivals during the past decade. In 1985, Rosen bought Ticket World USA, whose clients included Radio City Music Hall and the Pontiac Silverdome in Detroit. It also bought TicketPro in New England and Capital Automated Ticketing in Kansas City, Mo. Finally, Ticketmaster acquired its largest competitor, nearly bankrupt Ticketron—complete with regulators' blessings.

CALLING THE SHOTS. Though other, mostly regional ticket distributors exist, Ticketmaster's aggressive climb has enabled it to call most of the shots in its market. Even by Ticketmaster's calculations, increases in ticket surcharges have outpaced ticket prices over the past five years, from $2.55 to $3.15, or 24%, compared with a 19% rise in tickets. For premiere events, the charge can be more than $6 per ticket. "If you've got exclusive access to two-thirds of the available seats in venues nationally, you're able to exert incredible market pressure in the industry," says Richard Schrader, a former New York commissioner of consumer affairs who investigated Ticketmaster and is critical of its practices. "Consumers pay for that."

What's more, Ticketmaster is often the only operation big enough to land plum contracts. For example, it was the sole bidder this year for the contract to handle ticketing at the Meadowlands, a facility that ushered in 5 million patrons last year. Rosen says renewing the deal included a payment to the Meadowlands of nearly $6 million against future sales. "From where I sit, Ticketmaster is a monopoly that will do what it takes to keep me from entering their market," says Tom Kenan, president of Fastixx, a Portland (Ore.) outfit that recently was outbid for contracts in Tacoma and Seattle.

Rosen sees it differently. "There's nothing wrong with being competitive—with fighting for what you believe in," he says. "If I was a football coach, they'd be writing paeans to me."

It will take the government or a jury to determine who is right. Right now, a Justice Dept. task force is in the midst of an antitrust inquiry. Sources, who claim staffers are pushing for action against Ticketmaster, say the government will announce a decision in the case this summer. The Justice Dept. declines comment. But a memo to clients from Ticketmaster General Counsel Ned S. Goldstein obtained by BUSINESS WEEK indicates that the company is bracing for bad news. "We frankly cannot under-

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Erv Barnes (left),
Director of Information
Technology, and
Ed Herrelko (right),
xecutive Vice President
of Group Sales, at
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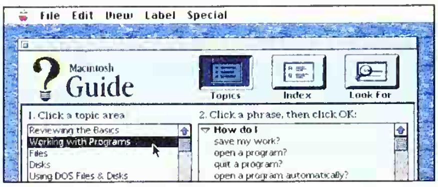
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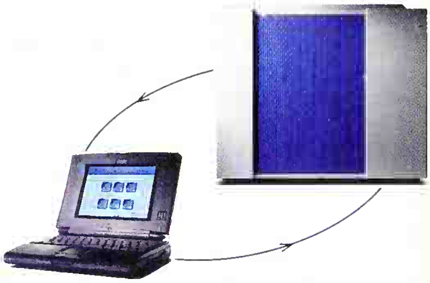

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*Whirlpool uses RemoteWare from Xcellenet, Inc., for access to the IBM mainframe, Passport for Macintosh from Advantis for IBM 3270 terminal emulation and cc:Mail Mobile from Lotus Development Corporation to exchange e-mail between Macintosh and Windows environments. ©1995 Apple Computer, Inc. All rights reserved. Apple, the Apple logo, Macintosh, PowerBook and "The power to be your best" are registered trademarks of Apple Computer, Inc. All Apple products are designed to be accessible to individuals with disability. To learn more (U.S. only), call 800-776-2333 or TDD 800-833-6223 stand what makes the Justice staff believe that it is a good idea to engage in social engineering on the live entertainment business, rather than leaving the participants in that business to sort out their relationships in accordance with their perceptions of what is in their best interest and the forces of the free market," wrote Goldstein.

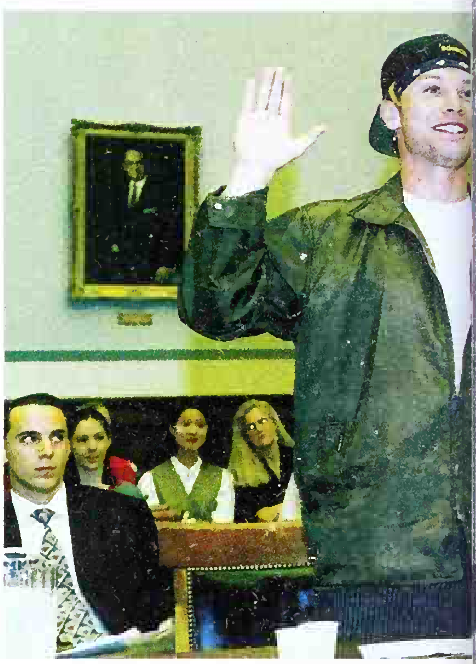
RUN ON THE COURTS. The feds aren't the only ones giving Ticketmaster the jitters. The New York State Attorney General's office is conducting its own probe, and numerous class actions have been filed against the company by consumers nationwide charging price-gouging and anticompetitive practices. Fourteen of these cases are now being consolidated in federal court in St. Louis.

Rivals, too, are heading to court. In March, MovieFone Inc., the leader in computerized cinema-ticket sales, sued Ticketmaster for antitrust violations. It contends that Ticketmaster illegally erected obstacles to squelch MovieFone's plans to enter the live-event ticketing market and to cripple its existing operations. MovieFone alleges in its complaint that Ticketmaster acquired 50% of box-office-equipment supplier Pacer/CATS Inc. in 1994, which had a contract to provide MovieFone with essential hardware, for the sole purpose of hampering MovieFone's growth.

According to the complaint, MovieFone also alleges that Ticketmaster sought to disrupt MovieFone's initial public offering in 1994 by telling the company's investment bankers at Alex. Brown & Sons Inc. and Salomon Brothers Inc. that they would be removed from a "short list" of bankers considered for a future IPO being considered by Ticketmaster if they continued to work for MovieFone. "This became the story of our IPO," says MovieFone CEO Andrew R. Jarecki, who contends that Ticketmaster's meddling delayed his stock offering and made it more costly. Alex. Brown and Salomon decline comment.

Ticketmaster denies it used strong-arm tactics with the bankers. Moreover, it says MovieFone is using the litigation to prevent Ticketmaster from expanding its movie-ticket business. "Their claim is completely without merit," says Barron. "They're making this stuff up."

Still, Ticketmaster has shown tha isn't afraid to take on its most arc foes. The company sued for libel Francisco plaintiff lawyer Joseph M. ioto, who had filed a class action aga Ticketmaster in California in 1992.



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uoted in *The Boston Globe* charg-
ıe company with bribery. The case,
n Massachusetts, was thrown out
. In the final review, the appellate
questioned Ticketmaster's motives
ing the suit in a place where nei-
he plaintiff nor the defendant re-
And it stated that evi-
could suggest that

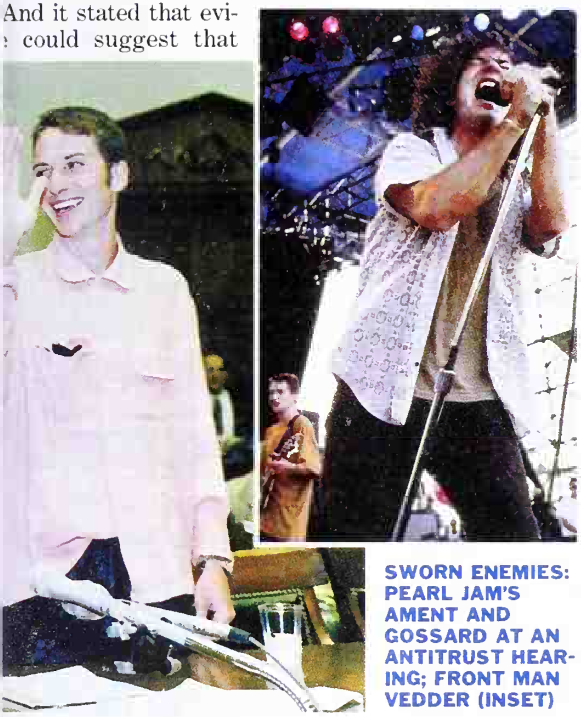
Ticketmaster "filed suit primarily to retaliate against Alioto's role in the California litigation rather than to right an independent wrong." Rosen says the company was merely defending itself against a scurrilous accusation.

Ticketmaster seems to be doing a lot of defensive work these days—and it's taking its toll. Last year, Ticketmaster lost the coveted contract to sell tickets to the 1996 Olympics in Atlanta—in part, acknowledges Rosen, because Ticketmaster was too preoccupied with Justice Dept. inquiries to respond to those made by the Atlanta Committee for the Olympic Games (ACOG). "It may have been Ticketmaster's contract to lose, but they lost it," says an ACOG source familiar with the ticketing program. "Ticketmaster did not demonstrate to us that they could do what was needed to be done at a price we could afford." Instead, Milwaukee-based Protix, who linked up with an IBM unit, won the estimated $30 million contract.

While the Olympics fumble is a big loss, Ticketmaster is looking ahead to new ventures. The company is talking to QVC, MTV, and the Home Shopping Network about starting a home-shopping channel to sell merchandise tied to rock concerts and theater shows. This summer, Ticketmaster will begin selling airline tickets through a deal with Reno Air Inc. In January, the ticket vendor will launch *Live!*, a consumer magazine about the live-entertainment industry.

CYBERTIX. And, with Tribune Co., owner of the Chicago Cubs, Ticketmaster is selling 4,400 tickets a month online through a test project with America Online Inc. Allen's online venture, Starwave, helped Ticketmaster launch a web site that offers information about upcoming performances.

Rosen wants to reduce the company's dependence on ticket sales, which make up 95% of revenue. That's particularly true as competitors start to move in on Ticketmaster's turf. Giants Sony Corp. and Blockbuster Entertainment Group have teamed up to enter the ticketing industry. And a smaller rival, ETM Entertainment Network, a startup in Costa Mesa, Calif., is promoting better



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chael H. Green, who won't use exclus
contracts: "If you allow exclusives,
quality of your service or system does
matter. It only matters how big a che
you can write."

Rivals say their only chance to b
Ticketmaster will be through technol
ical innovation. ETM boasts a netw
of 6,000 interactive voice-response li
and a novel system using bar codes
detect counterfeit tickets. Ticketmas
says it can manage only 5,000 calls
multaneously, via live operator. But,
adds, it outperforms rivals with proce
ing technology that can mail out up
100,000 tickets an hour and mainta
an unparalleled distribution network.

'From where I sit, Ticketmaster is a monopoly,' says Tom Kenan of Fastixx

Ticketmaster clients certainly are
complaining. They say the exclusiv
are the only way to maintain quali
control. A consortium of venue owne
has hired counsel to argue to the Justi
Dept. on Ticketmaster's behalf. The
position: Using different ticketing serv
es "becomes confusing to the consum
and to the advertiser," says Joel Fish
vice-president for business and cons
mer sales at Madison Square Garde
Adds Jack Boyle, chairman of Cell
Door Productions, the largest conce
promoter: "With Ticketmaster, I kno
the tickets will be sold legitimately, a
I'll get paid."

Still, outside its circle of partners a
clients, Ticketmaster and its hard-nos
CEO seem to have few admirers.
growing cadre of plaintiff lawyers, Ali
to among them, is out for blood. Grou
such as Consumers Against Unfair Tic
eting are boycotting the company a
pushing regional initiatives to cut se
vice fees. And increasingly, performe
demand greater control over ticket pr
es and a greater share of the procee
All this has catapulted the company
self—instead of its shows—into the sp
light. But this is one show Ticketmast
hopes no one will line up to see.

By Linda Himelstein in New Yo
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BREAKFAST CEREAL

A FROOT LOOP BY ANY OTHER NAME . . .

Ralcorp's private-label cereals are gobbling market share

As golden puffs of corn tumble out of an industrial oven, Ralcorp CEO Richard A. Pearce grabs a warm sample. They look like Kix, one of General Mills Inc.'s top brands. They taste like Kix—sweet on the outside, savory inside. But they sure don't sell like Kix—at least not yet.

With prices as high as $5 for a 20-ounce box, name-brand cereals have long been an obvious target for private-label manufacturers. Yet the supermarket cereal aisle remains a stronghold of national brands. Ralcorp Holdings Inc., a recent Ralston Purina Co. spin-off that dominates the store-brand business, sells its knockoffs for nearly $1 a box less than their branded counterparts—the widest "gouge gap" in the grocery trade. And since cereal is cheap to make, the knockoffs can still offer retailers as much as twice the profits of branded cereals. Yet private labels account for just 6% of cereal sales, half the share of private-label groceries as a whole. The reason: Private-label cereal makers have lacked the skill and wherewithal to sit at the same table as Kellogg Co. and Mills. In quality, packaging, and marketing clout, the breakfast kings have eaten the lunch of their private-label rivals.

That's finally changing. Last year, private-label cereal growth averaged 8%, while branded cereals grew 3%. And analysts expect even more private-label growth as the aggressive Ralcorp pours on new products. This isn't just generic cereal: Ralcorp cheerfully duplicates national brands—usually slapping a retailer's name on the boxes to make them store brands. Pearce plans to launch as many as four new knockoffs a year, aiming at Shredded Wheat, Trix, and a dozen other major brands that lack store-brand counterparts. His upstart stable of challengers, such as Nutty Nuggets (a knockoff of Post Grape Nuts) and Apple Dapples (a Kellogg's Apple Jacks wannabe), will eventually double their share of the cereal category, Pearce predicts. "The cereal aisle is going to look different," he vows between bites at his Sparks (Nev.) plant.

MIXED BAG. Skeptics abound—especially on Wall Street, where Pearce tried to sell investors on the billion-dollar Ralcorp spin-off last year. Analysts suspected Ralston's cagey chairman, William P. Stiritz of unloading a bunch of losers. Cereal accounts for 70% of operating profits, but Ralcorp inherited other disparate businesses from Ralston: private-label crackers, Beech-Nut baby foods, and a pair of ski resorts. Pearce's plain-spoken, regular-guy persona made for a tedious road show. To top it off, Ralcorp carried $380 million in debt, 69% of its capitalization, prompting Moody's Investors Service to slap it with a below-investment-grade rating. The stock opened at $15 per share in April, 1
then sank to $13.50 two weeks late

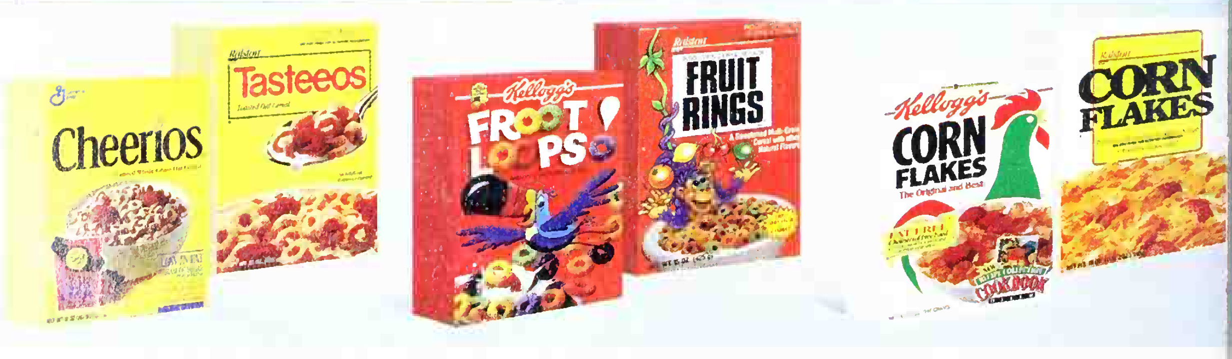
Still, Pearce had plenty of room t
make improvements. He cut costs
boosted efficiency by replacing comp
owned warehouses with third-party
tribution. He eliminated a direct s
force in favor of brokers who have r
clout with big retail accounts. And
outsourced computer systems, inte
audits, and tax accounting. Ralcorp's
sults surprised the skeptics. Over
six months ended Mar. 31, food pr
soared from $33.9 million to $51.6
lion. And the stock has nearly doub
trading at 24¼ as of June 13.

To make his imitations even m
sincere forms of flattery, Pearce is
vesting in new plant technology
will help Ralcorp more exactly copy
brands. And packaging is growing s
er. Duplicating big-name cereal brand
legal because they're made with s
dard, nonproprietary manufacturing
cesses. But trademarks and names
protected, and disputes over promot
al claims occasionally crop up: Gen
Mills won a 1992 administrative
against Malt-O-Meal Co. over adve
ing that compared the No. 2 privat
bel maker's Toasty O's to Cheerios.

A bigger worry for private-label
reals is the possibility of a Froot L
Friday. After all, the last time gene
exploited such a vast price advant
the brand-name leader—in that c
Philip Morris Cos.—retaliated by slas
the price of its No. 1 brand, Marl
Could flakes, pops, and puffs go the
of smokes?

Most analysts say no—perhaps
cause Pearce's success hardly has br
ed makers quaking. General Mills
Stephen W. Sanger says private-l
growth will slow, because Ralcorp
others have already copied all the
lucrative brands. As the knockoffs m
ic smaller brands, "the law of dimin
ing returns will cause retailers to q

A sincere form of flattery? Ralcorp's packaging apes that of the name-brand cereals, and it tries to make the taste indistinguishabl



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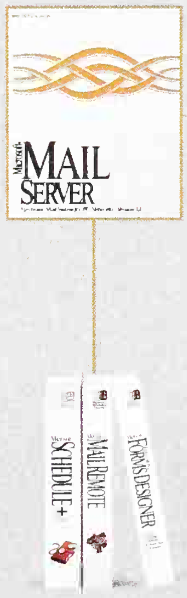

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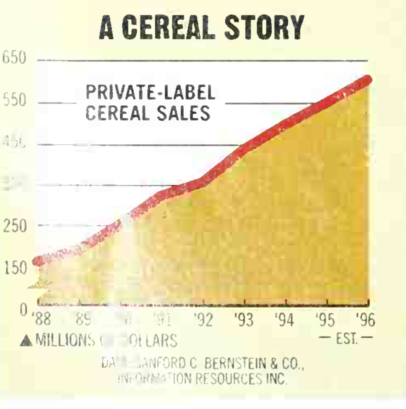
tion the value of additional private label," Sanger told analysts in April. And the big brands are giving the knockoffs less of a window: Kellogg, Mills, Kraft Food's Post, and Quaker Oats Co. have reined in price hikes recently, narrowing the gap between private-label and branded cereals from $1.05 per box at the peak in 1993 to about 95¢ today, counting the impact of coupons.

Still, retailers seem to have a healthy appetite for store-brand cereal and its sweet profit margins. Private-label cereal "hasn't come close to its potential," declares Curt A. Lerew, senior vice-president at Fred Meyer Inc., a $3.2 billion Pacific Northwest supermarket chain. Lerew recently devoted 20% more shelf space to cereal, giving most of it to his store brands and promoting them heavily. The result: Private labels account for more than 10% of cereal sales at his 103 stores.

A GLEAMING EYE. Unlike the highly promoted introductions of cereal brands, private labels tend to build slowly, as cautious retailers add them to the shelves one by one. So while Pearce encroaches on the name brands' turf, he will need more profits from his private-label crackers and Beech-Nut baby foods. He plans to beef up Ralcorp's small branded-cereal business—Chex and Cookie Crisp—with a new premium-priced brand. And Pearce says that he is looking for food-industry acquisitions, getting a gleam in his eye at the mention of privately held Malt-O-Meal.

But Ralcorp could also be the quarry. "If they don't do something great, they'll probably be taken over," declares Trisha L. Reopelle of the Wisconsin Investment Board, Ralcorp's third-largest stockholder. Pearce concedes that Quaker would be a logical buyer, but meantime he's investing for the long term—and munching handfuls of his new Kix knockoff, Silly Spheres. Time will tell if he's been eating too many of them.

By Greg Burns in Sparks, Nev.



PHOTOGRAPH BY [illegible] HERMAN/SIPA CHART BY [illegible]

HOW ABOUT SUGAR-FROSTED SUGAR?

Ralcorp Holdings Inc. is setting itself a modest goal. It's not trying to make a better Cheerio, or Cocoa Puff, or Grape Nut—just one that's indistinguishable from the original. To see how well it succeeds in its quest to create a parallel universe of breakfast cereals, BUSINESS WEEK conducted a highly unscientific blind tasting among some of the nation's most discriminating cereal eaters: 15 kids aged 4 to 12, all volunteers from a Harlem after-school program. When it comes to crunch, this is where the rubber meets the road.

TASTE EXPERT: *The kids cared only about sweetness*

We asked our experts to compare three Ralcorp knockoffs with the branded originals. The results might give cereal makers on all levels of the grocery-store shelf food for thought.

DAMNING VERDICT. First came cornflakes, and here, Ralcorp succeeded in matching the national brand—for what that's worth. Our tasters were unenthusiastic about both versions, even after we broke out sugar to sprinkle on top. "It tastes like the bark of a tree," said 12-year-old Franklin Felix of Ralcorp's version. But he didn't like Kellogg Co.'s classic cornflake any better. "It tastes like cookies without sugar," was his damning verdict. Most others couldn't detect much difference either, though the ersatz flake appeared slightly smaller and more fragile.

> "Like the bark of a tree."
> "Worse than wheat bread."
> This was one tough room

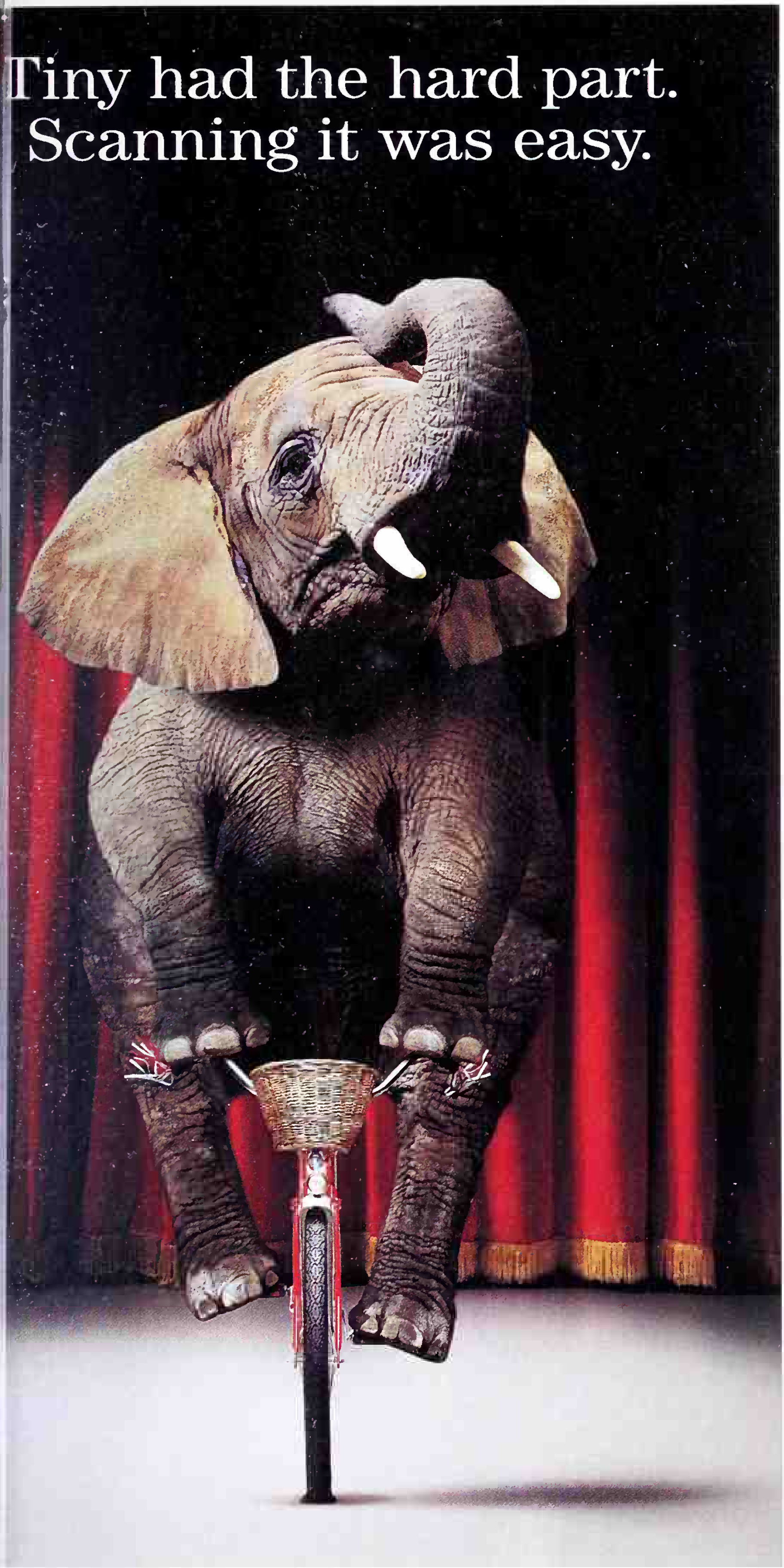
Froot Loops fared much better. "I love it!" exclaimed Naeemah Rose, age 9½, after sampling the original. And with a sugar content of 14 grams per one-cup serving for the Kellogg prototype, it's not hard to see why. Our experts had little trouble telling apart the two versions of sticky, garishly colored rings—but happily for Ralcorp, its Fruit Rings were preferred by most. Ralcorp's secret? It heaps an astonishing 16 grams of sugar into a one-cup serving. "It's better than the first one," said Naeemah. "It tastes sweeter."

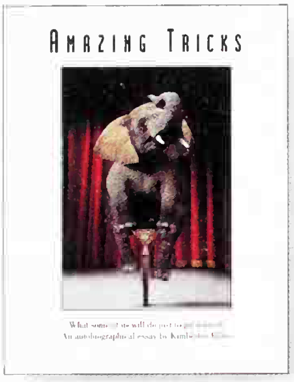
Our panel finished up with a few quick spoonfuls of Cheerios, the mighty General Mills Inc. brand. One again, our tasters had no trouble telling the two cereals apart, this time before they tasted a single "O." The Mills breakfast standar is the result of an expensive "gun-puffing" process that Ralcorp simply cannot match with its existing equipment. As a result, no one would mistake a whiter, lighter, less uniform Tasteeo for one of Big G's little Os. But appearances weren't what bothered our experts. Most disliked the Mills classic only a bit less than they disliked the Ralcorp copy. "It tastes like wheat bread, and they need more sugar," said Whitney Patterson, age 8, after tasting Cheerios. Her comment on the Ralcorp sample "Worse than wheat bread."

Based on our research, cereal makers can save themselves a lot of trouble. Forget fancy shapes and colors. Don't worry about dreaming up a sill name or a cartoon character to adorn the box. Just don't stint on the sugar.

By Mary Kuntz in New Yor

Tiny had the hard part. Scanning it was easy.





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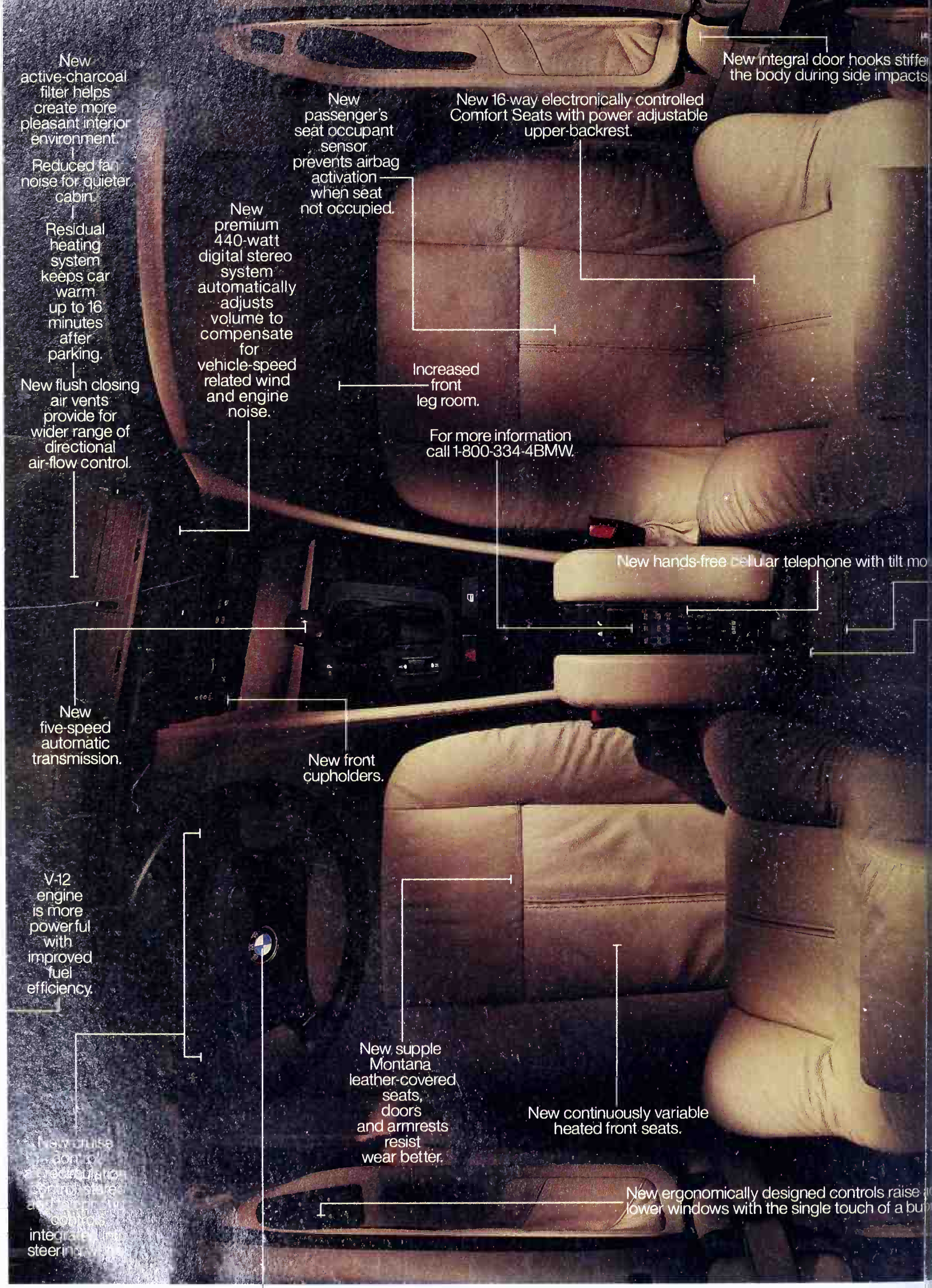

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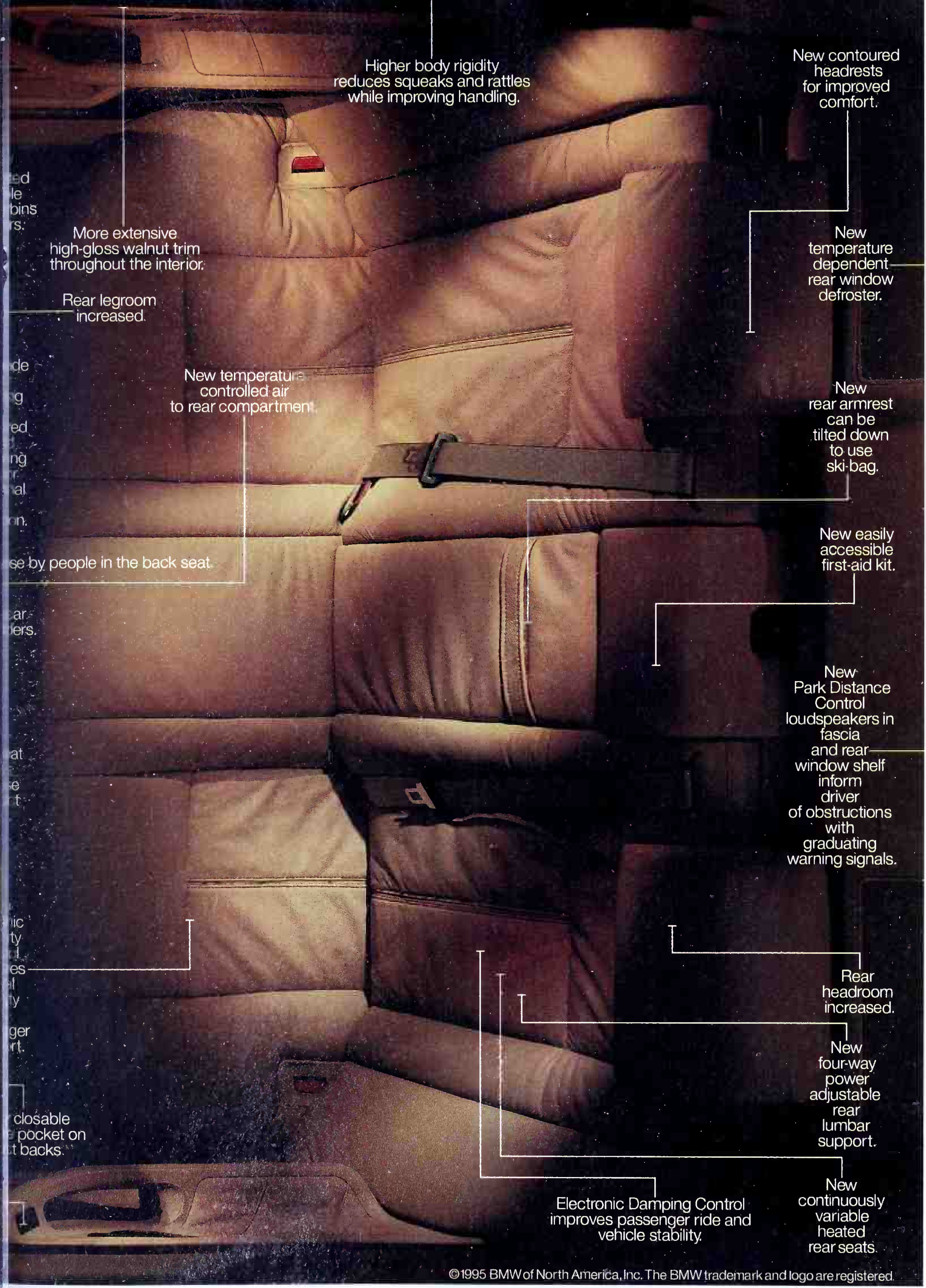

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THE NEW 750iL

LOOK WHO'S TALKING TO NEWT

The Speaker pays close attention to a little-known cadre of entrepreneurs

Dawn had just broken over the Washington Monument when Newt Gingrich, then House Minority Whip, and Golden Rule Insurance Chief Executive J. Patrick Rooney rambled by on a "power walk" in 1992. As they stepped swiftly along, Rooney talked about a scholarship program he had created for inner-city children. He also plugged a new product—the medical savings account—designed to lower health-care costs. Individuals would contribute to the plan and be encouraged to hold down medical expenditures because they could get back any unused balances at yearend.

Three years later, the Republicans have gained control of Congress, Representative Gingrich (R-Ga.) has become House Speaker—and Rooney suddenly finds himself cast in an unlikely role as one of the most influential corporate chieftains in Washington. Rooney and his ideas are often cited by Gingrich and Representative Bill Archer (R-Tex.), chairman of the House Ways & Means Committee. And his medical savings account and school initiatives are now part of the GOP legislative agenda. Both proposals are pending before committees. "He took my ideas and ran with them," 67-year-old Rooney beams.

Rooney is typical of the largely unknown cadre of CEOs Gingrich has tapped for advice in crafting key components of the GOP agenda, from regulatory relief and tax policy to welfare and health-care reform. Some, such as Rooney and Richard M. Scrushy, CE
Healthsouth Rehabilitation Corp.
Birmingham, Ala., are longtime Ging
supporters. Others, including CEO H
man Cain of Omaha-based Godfath
Pizza Inc. and James S. Herr, CE
Herr Foods Inc. of Nottingham,
have only recently come to Gingri
attention as he trolls for revolution
ideas. "What I'm doing now is aln
like fishing," Gingrich said in a May
interview with BUSINESS WEEK. "
keep the ones that sound right."

While the impact of their legisla
counsel is just being felt, the ris
prominence of Gingrich's corpo
Kitchen Cabinet has already shake
the pecking order within the Belt
The traditional business elite, domina

Newt's Corporate Kitchen Cabinet

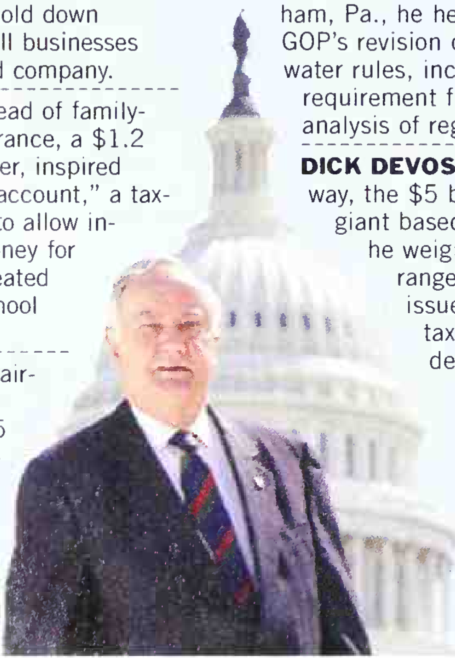
HERMAN CAIN CEO of $250 million Godfather's Pizza chain has helped shape House Republicans' welfare-reform plan that would place a two-year limit on cash benefits. Wants to hold down health-care costs for small businesses such as his Omaha-based company.

J. PATRICK ROONEY Head of family-owned Golden Rule Insurance, a $1.2 billion Indianapolis insurer, inspired GOP's "medical savings account," a tax-deductible savings plan to allow individuals to set aside money for future medical costs. Created model for Gingrich's "school choice" initiative.

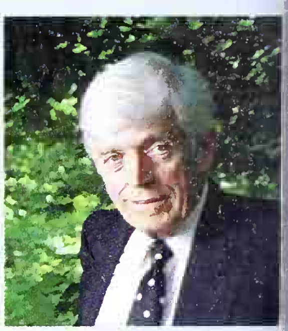
RICHARD SCRUSHY Chairman of Healthsouth in Birmingham, Ala., a $1.5 billion company that provides rehabilitation services. Counsels Gingrich on ways to create incentives to hold down health costs by using new technologies.

JAMES HERR A prominent voice on government deregulation. Founder and CEO of Herr Foods, a $100 million snack-food company in Nottingham, Pa., he helped shape the GOP's revision of federal clean-water rules, including a requirement for cost-benefit analysis of regulations.

DICK DEVOS President of Amway, the $5 billion direct-sales giant based in Ada, Mich., he weighs in on a wide range of conservative issues, particularly tax reform and deregulation.



HERR: AN OUTSPOKEN CRITIC OF ENVIRONMENTAL REGULATIONS



ROONEY: "HE TOOK MY IDEAS AND RAN WITH THEM

DEVOS: ADVISES THE SPEAKER ON TAX POLICY

Wall Street and Rust Belt indus- s, now shares the limelight with a v of corporate newcomers to the cap- . They include small and medium- companies, and a smattering of big s, that are often privately held and ded by entrepreneurs who chafe un- the yoke of federal regulation.

NT LINES. Gingrich's reliance on se new faces doesn't mean he dis- ns old-line corporate titans. As he s for ways to shrink government, Speaker says, he has met n more than 20 CEOs, from n F. Welch of General Elec- Co. to John W. Snow of CSX p., who have transformed bureaucracies. "He wants to w how many of the lessons orporate downsizing, right- g, and reengineering are di- ly applicable to the federal ernment," says Snow. Ging- also scouts out Big Busi- s leaders who have adapted he global market. A case in it: Ford Motor Co., which anced its worldwide compet- eness while trimming its kforce. "He's particularly rested in our emphasis on lity and teamwork over the decade or so," says Ford Alexander J. Trotman.

till, as he champions the rests of Main Street over l Street in fashioning the vt World Order, Gingrich is omfortable with managers se only vantage point has n the executive suite, the aker's advisers say. He pre- to consult business execu- s who have served on the t lines and taken huge risks starting their own business- Many of Gingrich's cor- ate confidants, including ushy and Herr, are self- le millionaires.

odfather's Cain, 48, certain- ts Gingrich's portrait of a New Age orate leader. A former dishwasher a graduate of Morehouse College, n developed a reputation as a trou- hooter after joining Pillsbury Co. in 7 and sorting out problems at ailing s. As president of one, Godfather's a, Cain stemmed a flow of red ink downsizing. After Cain and other managers bought Godfather's for million in 1988, he became CEO of a pany that now reports $250 million ales at 520 outlets nationwide.

ike many businessmen, Gingrich's orate counselors rail against gov- nent interference. After founding a snack-food business in 1946 with nitial investment of $1,750 and expanding it into a $100 million regional business, Herr, 70, says environmental regulations and bureaucratic delays stymied his efforts to build a new warehouse in 1989. It took two years to meet all the federal requirements, he says. Recalling how his young company battled back from a fire that destroyed its headquarters in 1951, Herr says: "If the 1989 regulations had been in place in 1951, we would never have been able to hold our customers and start up again."

Gingrich "thinks more like an entrepreneurial businessman than a megacorporate leader"

GODFATHER'S CEO CAIN WITH HOUSE SPEAKER GINGRICH

DANIEL ROSENBAUM/WASHINGTON TIMES

Gingrich often calls on his advisers for business solutions to fiscal and social problems that don't create more bureaucracy. "He thinks more like an entrepreneurial businessman than a megacorporate leader," says Cain. "He believes in solving problems from the bottom up, using the limited resources available." And given Gingrich's stature, their suggestions carry weight. When lawmakers rewrote the Clean Water Act in May, the proposal contained suggestions endorsed by Herr at an earlier hearing, including a requirement to weigh the costs of imposing federal regulations against the benefits they might achieve. "Those are exactly the kinds of changes that Newt loves," says Dick DeVos, president of the direct sales giant Amway Corp. and an adviser to Gingrich on regulation and tax reform.

Meanwhile, Scrushy, whose $1.5 billion Healthsouth is the nation's largest provider of rehabilitation services, has emerged as a key adviser on health-care issues. The Speaker in January asked the 42-year-old executive to head a task force to develop a strategy to cut the cost of workers compensation.

Sometimes the advice Gingrich receives goes beyond typical corporate concerns. At a Jan. 9 press conference, Cain and Gingrich, who both favor limiting welfare benefits to force recipients to find work, announced that the National Restaurant Assn. had obtained commitments from 250 food-service CEOs and restaurant owners to employ and train current welfare recipients. The so-called Good Start Project is up and running in all 50 states.

Critics say many of the Speaker's corporate allies make big contributions to Gingrich's causes to obtain access and further their own private business agendas. "He who pays the fiddler calls the tune," says Representative Patricia Schroeder (D-Colo.). Many—though not all—of his CEO counselors donate to his campaigns, the Republican Party, or the Progress & Freedom Foundation, a conservative think tank that promotes Gingrichian ideas about the transition to the Information Age. Golden Rule Insurance and its executives, including Rooney, have provided more than $680,000 since 1985 to Gingrich, his former political action committee GOPAC, and the GOP. Healthsouth's Scrushy helped launch Progress & Freedom.

Gingrich denies that such donations win anyone influence. And his corporate donors insist they're not trying to buy access. "Newt Gingrich has never asked me for a dime," says Scrushy. "Newt never said, 'Give me money and I will name you to a task force.' He doesn't do anything for favors."

For Gingrich, talking policy with CEOs is a favorite pastime. "I would rather sit and play intellectually than go to the golf course," he grins. That means his corporate buddies have to meet him in a conference room instead of on the 19th hole. But whatever the venue, the CEOs are getting their chance to help shape a revolution.

By Richard S. Dunham in Washington

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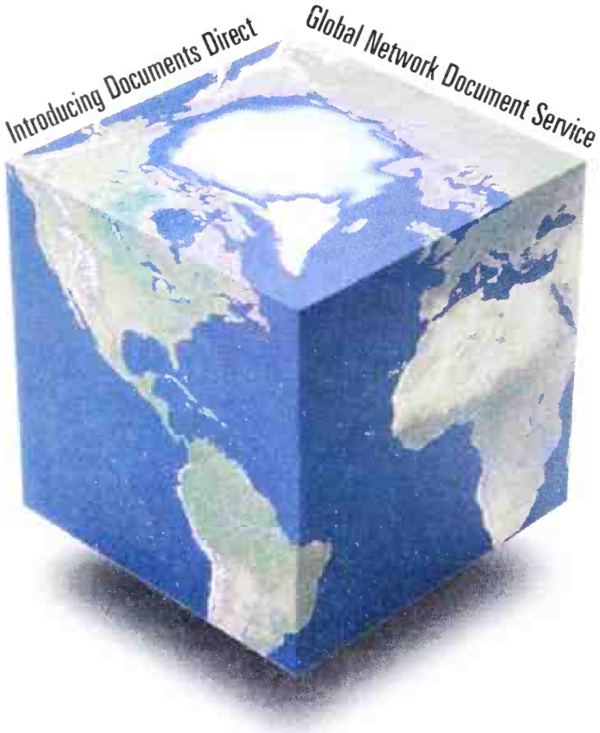

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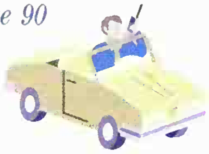
Our Annual Report on INFORMATION TECHNOLOGY

OVERVIEW *Page 86*

The networked corporation can do business anywhere, anytime—in theory. But for many organizations, networking is not working

ANATOMY OF A NETWORK *Page 90*

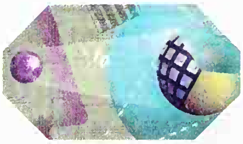


From your pocket pager to the World Wide Web, here's the circulatory system of the Body Electric

SOFTWARE *Page 92*

MIDDLEWARE: Today's sprawling networks need plenty of cyberspackle to hold them together, and the market for it is hot **GROUPWARE:** Why does IBM think Lotus is worth so much loot? **SECURITY:** What to do when every user is a potential hacker

THE INTERNET *Page 100*



Business executives are still asking: "What exactly will it do for me?"

INFORMATION MANAGEMENT *Page 102*

SUN MICROSYSTEMS: It's proving companies can go mainframe-free **TELECOMMUTING:** At 8.4 million, it's the fastest-growing sector of the work-at-home set

MOBILE COMPUTING *Page 106*

Beaming data over the airwaves sounds good, but the costs are stratospheric

TELECOMMUNICATIONS *Page 110*

Deregulation is coming any decade now—and so is a better public phone network

ENTREPRENEURS *Page 114*

There's a network play for every investor

SERVICES *Page 118*

Dead disks, frozen file servers, dismembered PCs—it's all in a day's work for computer doctor Michael O'Brien

THE NETWORKED CORPORATION

Linking up is hard to do–but it's a necessity

THE INTERNAL REVENUE service had a great idea a few years ago: Let millions of taxpayers simply phone in their returns. After successfully testing pilot systems, the agency is ready to go live in 1996. Some 26 million taxpayers who use the 1040EZ form will be able to call an 800 number, tell a voice-recognition computer their vital statistics—Social Security number, taxes withheld, and income—and, on the spot, the machine will say how much is owed or due. The system could save millions—and make tax day a bit less gruesome.

Seems like a great example of how the combination of clever computers and advanced networks can speed things up, eliminate hassles, and save money. And it could be. But because Congress requires that all tax forms be signed with a pen, taxpayers who use the new setup will still have to mail in paper returns—which will have to be processed the old way.

So you're probably thinking: That's the government for you—so mired in red tape that it can't begin to make use of high-tech networking. But think about your own company. Does your legal department let you accept a contract that has been sent by electronic mail? Can your employees fill out their expense forms on PCs, then get them approved and filed electronically? Does information flow freely throughout your organization to wherever it's needed, rather than up and down the hiera chy? Can customers dial into your computers to check the status of orders—instead of playing phone tag with somebody in your sales department? Is your company saving money by electronically linking up with a dozen suppliers in a just-in-time inventory network?

The answer is probably: Not yet. And it isn't because the telecommunications world hasn't dream up enough products and services. There are LANs and WANs, routers and brouters. There's SONET an ISDN and TCP/IP and ATM—a jumble of jargon repr senting huge advances in technology to move info mation anywhere it needs to go. The Electronic I dustries Assn. estimates that U.S. manufacturers will ship $64 billion worth of communications gea this year, a 24% gain over 1994, while shares of 3Com and Bay Networks, makers of internetwor ing gear, are surging. Giant IBM believes its custo ers want groupware technology for networks so badly that it's spending $3.5 billion on Lotus Development Corp. to get it (page 96).

IBM is playing a costly but essential game of catch-up. From making widgets to posting electro ic ads to collecting payments, businesses are goin electronic, or trying to. That's why BUSINESS WEE is devoting its first Annual Report on Informatio Technology to the Networked Corporation.

Even though networks are pervasive, the benefits y promise are maddeningly elusive. “The tech- ogy is here,” says Daniel Shubert, director of nt/server technical services for Electronic Data stems Corp. “The problem is not with the tech- ogy, but with the corporate processes. Compa- s must fundamentally change the way they do siness, and that’s hard.” In other words, you ’t run a 21st-century networked corporation h 1950s rules.

utdated management schemes aren’t the only nan factor holding things up. Around the world, itics has slowed attempts to liberalize outdated ecommunications regulations, leaving most coun- s with regulatory restraints that phone compa- s say restrict their ability to offer the most ad- iced services, such as video dial tone. And since st of the world’s phone companies have yet to loy modern digital transmission schemes, it’s l tough to cobble together a high-speed network r large distances. Within uilding, a local-area net- rk (LAN) transfers data at oadband” speeds—10 mil- bits, or 10 megabits, per ond or more. Then the a hits the local and long- tance nets, and speed ps quickly, to 2 megabits best.

nd though digital tech- ogy has cut transmission ts, in the absence of real npetition, local phone npanies haven’t passed on savings, customers com- in. “There has been a to 30% reduction in network costs, but there has n no big decline in thecost to the customer,” says drew Grove, CEO of Intel Corp. “Intel constantly lgers the phone companies to lower prices.”

ongress is currently debating a deregulation bill t would allow competition among local and long- tance companies and cable-TV systems, as well as ious and sundry new entrants. But several pre- us bills have been killed by gridlock (page 110).

usinesses can’t afford to wait. In the 1980s, a dful of cutting-edge corporations such as Wal- rt Stores Inc. and Federal Express Corp. wed how networks—when used to support novel siness approaches—can change the competitive dscape. Now, getting wired to speed up internal cesses and reach out to others electronically is imperative. “The ability to do more and more nmerce over a network is at the forefront of everybody’s thinking,” says George T. Shaheen, managing partner of Andersen Consulting. “What’s going to happen—because we want it to—is that the network is going to take time, distance, and space out of the equation.”

For those that don’t get it, the future could be grim, warns Robert M. Curtice, director of Arthur D. Little Inc.’s North American Management Consulting Group. “Whole industries will restructure or disappear,” he says. “For some companies, such as banks, if they haven’t started doing [electronic commerce], it may already be too late.”

In industry after industry, though, you’ll find companies that are starting to reap big benefits from networking. BP America Inc., for example, the U.S. subsidiary of British Petroleum Co., is setting up a system that will process at least 40% of the 440,000 invoices it receives each year electronically. The switch will do more than save on man-hours and paperwork: BP expects to be able to eliminate duplicate purchases and negotiate bulk rates.

LANs and WANs do not an efficient workplace make: “You can’t assume people will share information,” says a consultant, “just because the network allows them to”

A networked corporation can do business anywhere, anytime, getting a jump on competitors that still conduct business the old-fashioned way. And it no longer matters where your best and brightest talent resides: Sweden’s L. M. Ericsson has 17,000 engineers in 40 research centers located in 20 countries around the world, all linked into one network. Development teams in Australia and England work together on the same design, then zip off the final blueprint to a factory in China.

In many businesses, networks allow companies to vacate expensive office space because employees can get their work done wherever they roam (page 104). Andersen’s Shaheen runs the Chicago-based consulting firm from his office in Palo Alto, Calif., and doesn’t much care where his employees are—as long as they’re connected to the network. ISDN (integrated services digital network), a high-capacity digital service available to residential phone customers, could be a boon to telecommuting.

Still, the biggest payoff from networking comes when companies use it to do better by their customers. Two years ago, Del Monte Corp. started

ALAN BASEDEN

getting daily inventory reports electronically from grocers. When stocks fall to a predetermined minimum level, the Del Monte network immediately issues a restocking order. Retailers need only keep some 1½ weeks of inventory on hand as a result, compared with the four weeks' worth they used to warehouse to avoid shortages. "One week of inventory in a warehouse costs a retailer some $250,000 a year," says R. Vincent Livingston, manager of efficient consumer response for Del Monte. "The biggest thing a customer wants is to not have to invest as much in inventory."

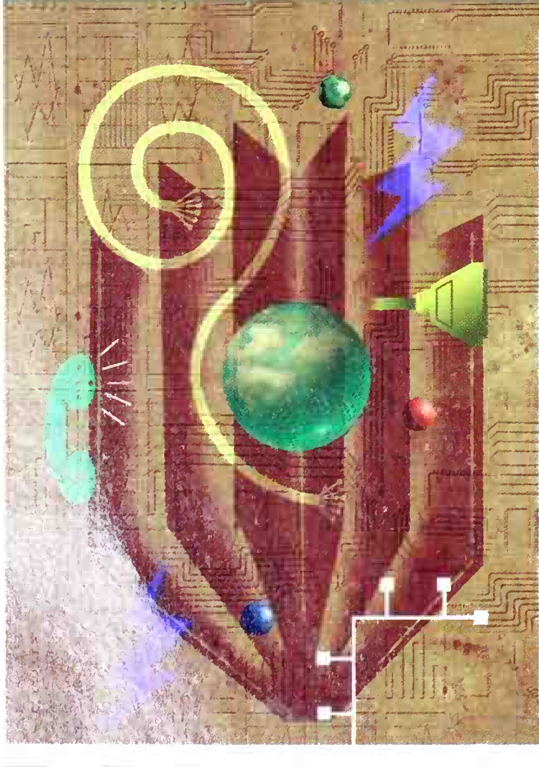
Most corporations have taken the first steps toward such digital nirvana by installing LANs to connect their ubiquitous desktop computers. A decade after they started linking PCs, LANs are the central nervous systems of offices. They carry everything from E-mail to desktop videoconferencing. At their best, LANs support sophisticated client/server computing setups that not only supplant older mainframes and minicomputers but also allow staffers to do things the old setups couldn't, such as working on the same document simultaneously.

Getting to that stage is not easy. The complexity of putting all the technology together is enough to send managers screaming for pencil, paper, and stamps. For the network to operate smoothly, everything on it must adhere to consistent hardware and software standards and communication protocols. This goes beyond whether to buy IBM Apple, Windows or OS/2. You have to worry abo bridges and routers that connect LANs in differen departments, modems and gateway computers th move data to the outside world, and the PBX tha routes phone calls. All of these decisions are affe ed by how much capacity, or bandwidth, you wa and the number of employees using the network.

The more cutting-edge the technology, the dici the decision-making. For example, a new set of superfast digital-transmission technologies is appearing for wide-area networks (WANs). Asynchr nous transfer mode (ATM) is particularly good at mixing voice, data, and video traffic at high spee Frame relay can send large files quickly by temporarily seizing extra bandwidth, and SONET, a technique that sends signals simultaneously over two different paths, raises the reliability of the n Together, these three promise WANs that can hit speeds as high as 1 billion bits per second.

But mixing these technologies with existing ne

Communications Jargon That You Should Kn



ASYNCHRONOUS TRANSFER MODE (ATM) A high-speed digital switching and transmission technology that allows voice, video, and data signals to be sent over a single line at speeds ranging from 25 million to 1 billion bits per second (bps). An analog phone line transmits at about 2 million bps—at most.

BRIDGE A device that links two local-area networks together so they can share data.

BROADBAND Refers to any transmission at a speed higher than 2 million bps. A broadband network can carry voice, data, and video signals simultaneously. Remember: You can't be too thin, too rich, or have too much transmission capacity.

CLIENT/SERVER A meth computing in which one c puter acts as a central rep tory for files and programs can be shared by a numb "client" PCs connected b network. Replaces a main frame-centric setup.

ELECTRONIC DATA INT CHANGE (EDI) A series o standards that allows com er-to-computer exchange business documents, such invoices, shipping orders, ments, etc., between diffe companies.

ETHERNET A set of local network (LAN) standards allows networking product from different vendors to municate. Introduced som years ago, it is the most w used LAN technology.

rks means dealing with a host of vendors, each
erpreting so-called industry standards its own
y. A dozen suppliers offer gear built on the ATM
ndard, but it's rare to find two exactly alike.
d, warns Howard Anderson, managing director
Boston-based consultant Yankee Group Research
c.: "If you build it wrong, you'll be chasing your
l trying to correct it well into the next century."

There are a couple of ways around the complex-
. One is "middleware," software that acts as a
nslator for all the different devices and pro-
ams that make up a net (page 92). The beauty of
ddleware is that it provides a way to bring older
mputers in on the scheme. "Green-field opportu-
ies are very, very scarce today. You always have
deal with legacy systems," says Krish A. Prabhu,
ef technical officer for Alcatel Network Systems.

Another option is to adopt the communications
otocol of the Internet. TCP/IP, the shorthand way
saying transmission control protocol/Internet pro-
col, is now being worked into everything from
inframes to LAN equipment. Its near-universal
e is making it the lingua franca of electronic com-
rce. And the World Wide Web, which provides
orderly way to go from one Internet computer
another, is rapidly turning into a virtual commer-
l district (page 100).

Or you can just sidestep the complexity altogether by leaving it up to somebody else. The network muddle is a boon to consultants and "outsourcers"—companies such as EDS that take over a company's entire network operation for an annual fee. Market researcher Dataquest Inc. estimates that the computer-services business will grow from $33.3 billion in 1993 to $65.2 billion in 1998, with the network-management portion increasing from 26% to 31%. Gregory M. Jacobsen, executive vice-president for outsourcing services at SHL Systemhouse Inc., points out that bringing in a third party also makes it easier for the chief information officer to rein in all those PCs. "The modern CIO is starting to recognize that outsourcing...is a way to win back control," says Jacobsen.

In the end, however, getting the most out of the network means giving up control. A key difference between companies that make the net work for them and those that don't is their approach to information. "You can't assume that people will share information on a peer-to-peer basis just because the network allows them to," says Yankee Group's Anderson. But until a company is willing to share information with workers at the sales counter or the shop floor, the most sophisticated network technology won't help the bottom line.

By Catherine Arnst in New York,
with bureau reports

are some of the key technologies and standards that go into making a modern
rate network. Drop a few of these at parties and impress your friends.

ME RELAY A transmission
dard for sending data over
ic or private leased phone
. Data is broken down and
ed in frames, each the
e size, for relaying.

EGRATED SERVICES DIGI-
NETWORKS (ISDN) Of-
d by local phone compa-
, this protocol turns a
dard copper phone line into
gh-speed digital link that
send voice and data simul-
ously. With an ISDN line at
e, you can pretend you're
e office using the LAN.

AL-AREA NETWORK
) A network within a build-
r a limited distance that
computers and peripheral
ces, allowing them to share
mation and programs.

PACKET SWITCHING An efficient way of moving data through a network. A file is broken up into little packages that are sent by different routes through a network and then reassembled at the receiving end.

PRIVATE BRANCH EXCHANGE (PBX) An automatic telephone switch for an internal phone system. It replaces the old-fashioned office switchboard and manages the voice-mail system.

ROUTER A device that connects LANs that use different standards; essentially a more sophisticated type of bridge. What do you get when you cross a bridge and a router? A brouter, of course.

SONET Stands for synchronous optical network technology, but don't worry, no one ever uses the full name. A high-speed transmission architecture meant to exploit the huge bandwidth available on fiber-optic networks.

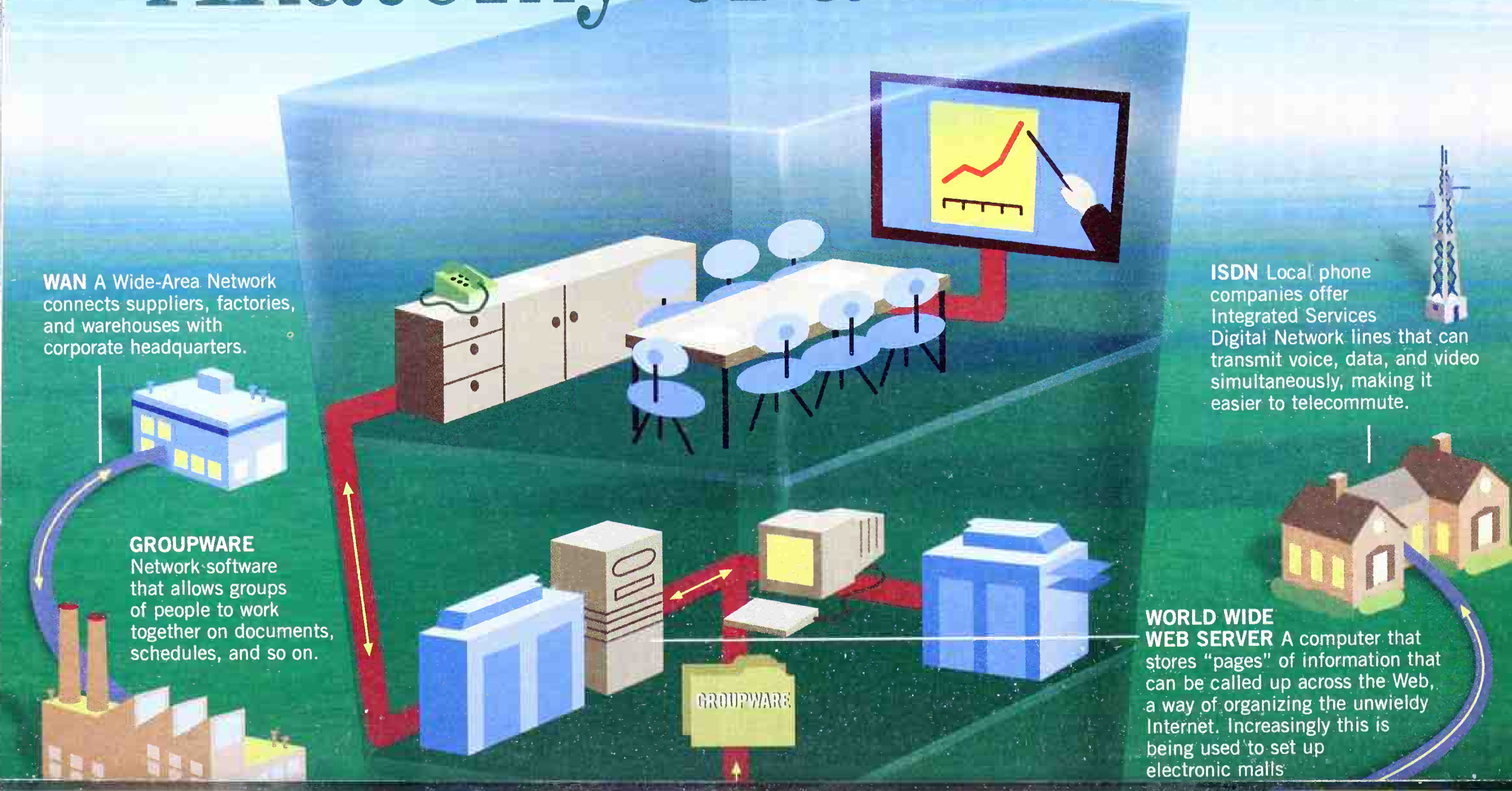
T1 A standard for digital transmission over phone lines. In North America, it can handle at least 24 voice channels at once using copper wires and transmits at a rate of 1.5 million bps.

WIDE-AREA NETWORK (WAN) An enterprise-wide communications network that allows signals to be transmitted from a LAN via a public or private line to other LANs in distant locations.

BusinessWeek

INFORMATION TECHNOLOGY ANNUAL REPORT

Anatomy of a Network

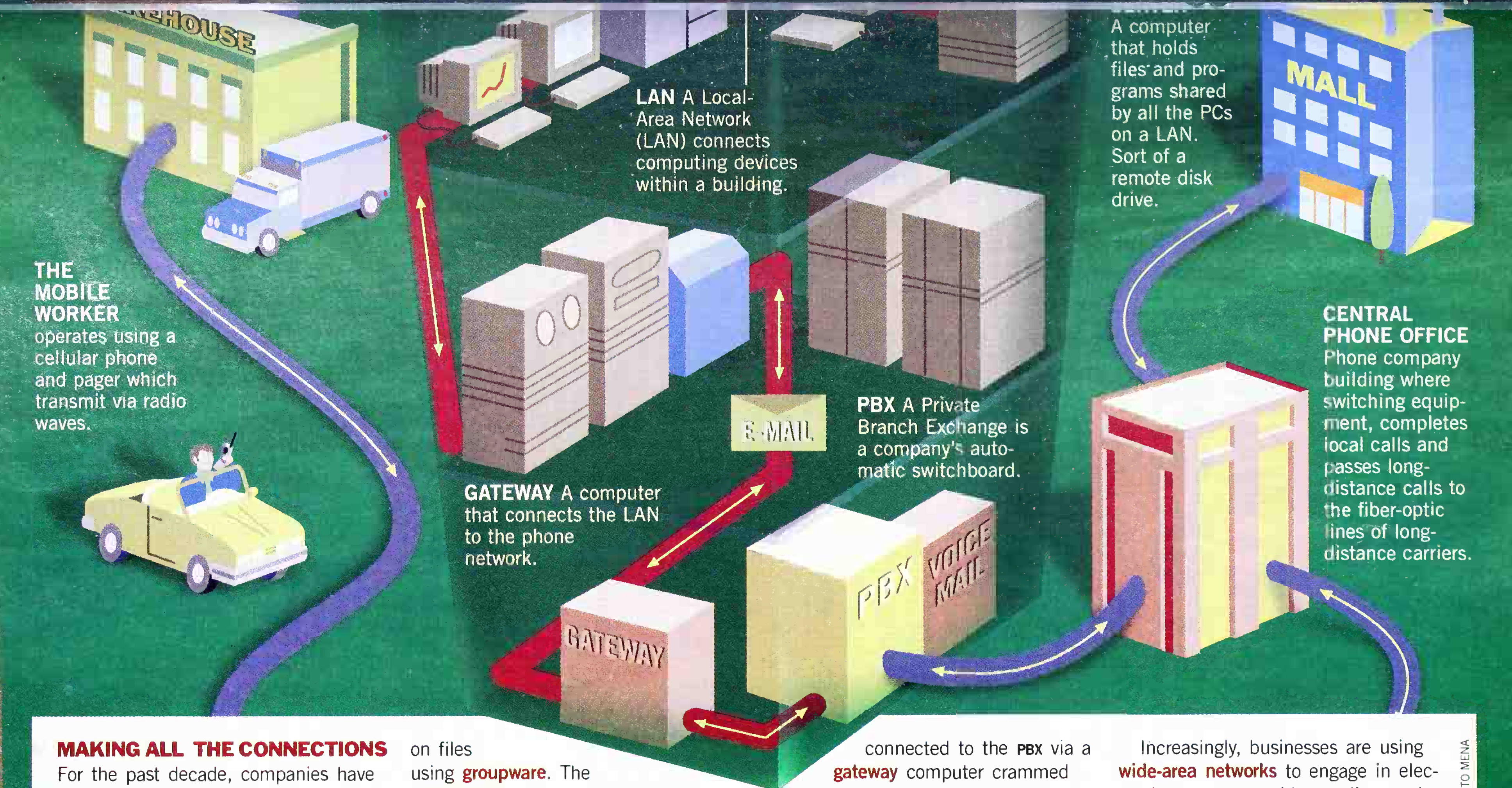


WAN A Wide-Area Network connects suppliers, factories, and warehouses with corporate headquarters.

GROUPWARE Network software that allows groups of people to work together on documents, schedules, and so on.

ISDN Local phone companies offer Integrated Services Digital Network lines that can transmit voice, data, and video simultaneously, making it easier to telecommute.

WORLD WIDE WEB SERVER A computer that stores "pages" of information that can be called up across the Web, a way of organizing the unwieldy Internet. Increasingly this is being used to set up electronic malls



THE MOBILE WORKER operates using a cellular phone and pager which transmit via radio waves.

LAN A Local-Area Network (LAN) connects computing devices within a building.

A computer that holds files and programs shared by all the PCs on a LAN. Sort of a remote disk drive.

CENTRAL PHONE OFFICE Phone company building where switching equipment, completes local calls and passes long-distance calls to the fiber-optic lines of long-distance carriers.

PBX A Private Branch Exchange is a company's automatic switchboard.

GATEWAY A computer that connects the LAN to the phone network.

DIAGRAM BY JAIME BEAUCHAMP AND ALBERTO MENA

MAKING ALL THE CONNECTIONS

For the past decade, companies have been moving away from large mainframe computers to networks of personal computers, a setup known as client/server computing. The heart of this model is the local-area network, or **LAN**, a pipeline connecting computers and peripheral devices so they can share data. Employees use the LAN to send **E-mail** and call up files stored in a communal **server**, and to collaborate on files using **groupware**. The **mainframe** still has a big role—performing heavy-duty jobs and acting as a repository for large databases.

To exchange information with computers outside the building—at a factory in another state, say—the **PBX** funnels calls and data to local and long-distance services. It also manages all internal voice traffic and a company's **voice mail** system. The LAN is connected to the PBX via a **gateway** computer crammed with modems.

Fiber-optic cables provide high-speed links in and out of the local phone company's **central office**. This is where calls are routed between local subscribers, long-distance networks, and wireless services such as cellular phones. **ISDN** speeds data over ordinary residential phone lines used by telecommuters.

Increasingly, businesses are using **wide-area networks** to engage in electronic commerce with suppliers and customers. The Internet, a worldwide network of computers linked by phone lines, has emerged as a means for low-cost business networking. And there's a flurry of activity on the Net's **World Wide Web**, an engaging way to post information and electronic advertising that reaches a potential 25 million Internauts.

CYBER-NETWORKS NEED A LOT OF SPACKLE

The golden opportunity in software: Paving over myriad incompatibilities

At the heart of every network is the acre of coding that is software—the stuff that makes the bytes run on time. As corporate computing evolves from the mainframe-centric to the client/server model, the software running it all has had to become an extremely clever jack-of-all-trades, operating on machines from a variety of vendors and processing everything from huge data files to optically scanned images to video presentations. Getting the software right is one of the most important challenges for companies hoping to live the networked life. Here are three kinds of software—middleware, groupware, and security programs—that make it all happen.

BROKERING BABEL:
Programs that give networks one voice

The great promise of computer networks has always been flexibility—that they would provide easy access to all sorts of information and electronic services—both within companies and, increasingly, across corporate boundaries. But that very flexibility creates monumental problems for programmers. And where there's a problem, there's an opportunity to create a whole new category of software—or at least a buzzword.

In this case, it's called middleware. The nebulous name relates to its role as a critical middleman, mediating among the many kinds of hardware and software now found on large networks. It is a creature born of chaos, for most corporations today have built, without quite meaning to, what the folks in computing call "heterogeneous networks"—sprawling setups containing all sizes and brands of computers and software. In the past, a billing application, say, would have been run on a single mainframe computer and would have relied on software supplied mainly by a single company, most likely IBM. Today, the networked version of that application may need to call on software from a dozen suppliers, whose products may or may not be compatible with one another.

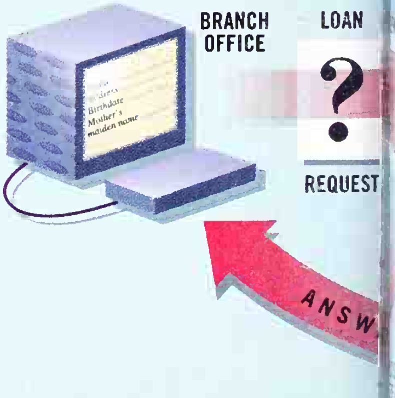
Middleware aims to give this hodgepodge at least the appearance of harmony, even as its individual components change and expand in number over time. That looks to be the main programming challenge of the '90s. Without middleware's ability to pave over the incompatibilities among computers and
to accommodate the shifting comple
ities of big networks, client-server co
puting networks would grind to a ha
So middleware is hot: Market researc
er International Data Corp. forecasts
middleware market that will grow fro
$50 million last year to as much as $
billion by 2000.

GLOBAL COHABITATION. The more co
plex the network, the greater the ne
for middleware. By now, getting a sa
department's two-dozen PCs to sha
files on a small server is practically
no-brainer. All the software one nee
can be found at the local comput
store. But try getting more than 2,0
computers, ranging from mainframes
all sorts of desktop workstations, to
habit on a worldwide network—its
made up of numerous subnetworks.

That's the very problem New Yo
investment bank J. P. Morgan & Co.
tackling in an attempt to turn itself i
a "real-time operation." Says Jeffrey
Chittenden, Morgan's chief computer
chitect: "We want all of our informat
to be available anytime and anywher
That means heavy use of middlewa
Chittenden says, to help Morgan's p
grammers create complex new inforn
tion systems on the fly—in a few m

Middleware on the Job

A set of software dubbed middleware oversees the many interactions between disparate computers, both inside and outside of the bank, that help process a loan application. The middleware lets each computer—at a credit reporting agency or at a branch—continue operating independently yet, without reprogramming, cooperate intimately with the others.

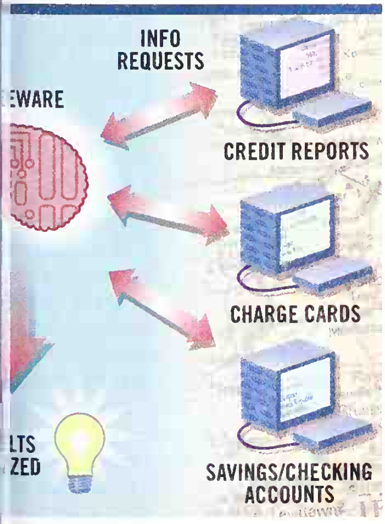


DATA: EARLY, CLOUD & CO.

if possible. If historical data can
·abbed from one computer, an econ-
ric analysis pulled in from another,
current pricing information taken
a third, for instance, the company
t capture a fleeting trading opportu-
or price a new derivative before
competition can. But only if a
set of links can be set up almost
·diately.

organ's programmers would never
he job done on time if they had to
track of exactly how each program
s, stores, secures, and delivers the
it manages. So Morgan is installing
leware products such as Connec-
from Belmont (Calif.) startup Open
zon. In essence, these products pro-
programmers anywhere on the net-
with a menu of "services"—such as
security and directories to locate
ork resources—that any new pro-
can call on. By delivering common
ces in a standard format, middle-
may raise programmers' productiv-
y as much as 30%, Chittenden says.
: Teflian, CEO of Covia Technologies,
ding middleware supplier spun off
United Air Lines' reservation sys-
agrees: "You want to be able to
applications as if the network
n't there."

EEN SCRAPERS." Making the com-
appear simple becomes increasingly
rtant as new types of networks,
as wireless setups, add more proto-
to the corporate networking stew.
as laptop computers increasingly
ne a key tool for workers on the
corporate networks must be able to
er vital information at unpredict-
times and to unpredictable loca-
—another job for middleware.
t's more, these programs can help
cations survive network failures by
ring that important messages don't
lost and—of particular interest to
s processing cash-machine withdraw-
don't get delivered more than once.



Middleware becomes even more crucial as corporate networks start interacting with one another. In building a system to collect clinical health data electronically from thousands of independent doctors, hospitals, laboratories, and pharmacies, for instance, Kaiser Permanente has turned to IBM's MQ Series software. Based on work originally done by New York-based Apertus Technologies Inc., MQ creates a sort of postal system that can move messages and coordinate tasks between 18 incompatible types of computers—including those from IBM's major competitors. At the Chicago Mercantile Exchange, MQ helps some 75 member firms, using a variety of computers, exchange trading information with one another.

In fact, many different software products are coming out under the middleware sobriquet. These range from so-called screen scrapers, which let PCs pretend to be mainframe terminals, to AT&T's Top End. That program, a so-called transaction monitor, keeps track of transactions between computers to make sure they are completed the way they are supposed to be.

All of these programs try to marry the old to the new, the near to the distant, and the proprietary to the open—and, of course, to make networks easier to program. If a network starts delivering on that promise of easy access to any information anywhere at anytime, you can bet middleware is on the case.

By John W. Verity in New York

GROUP THERAPY:

Why IBM paid all that loot for Lotus

How much is it worth to own the software that really lets groups of workers take advantage of computer networks—to collaborate as easily across the globe as down the hall? Try $3.5 billion. That's what IBM is shelling out for Lotus Development Corp., the roughly $1 billion software maker best known for its popular 1-2-3 spreadsheet. The prize is Lotus Notes, the defining product in an emerging category of software known as "groupware," so called because it's designed for sharing information among members of a group.

What's the big deal? IBM Chairman Louis V. Gerstner Jr., a devout Notes user himself, sees an opportunity to turn the competitive focus away from operating systems—where IBM has had little luck slugging it out against Microsoft Corp.—to building the computer industry's next generation of networked information systems.

SEAMLESS PACKAGE. Groupware is actually a catch-all term encompassing products ranging from fancy E-mail systems to scheduling programs to electronic bulletin-board software. The most sophisticated groupware packages have advanced features for automating the flow of work, routing documents, or allowing far-flung people to collaborate on a single document at the same time.

So what makes Lotus Notes stand out in the world of groupware? While many products tackle pieces of the puzzle—scheduling or shared databases, say—Notes is a comprehensive, seamless package. It can also be customized and used

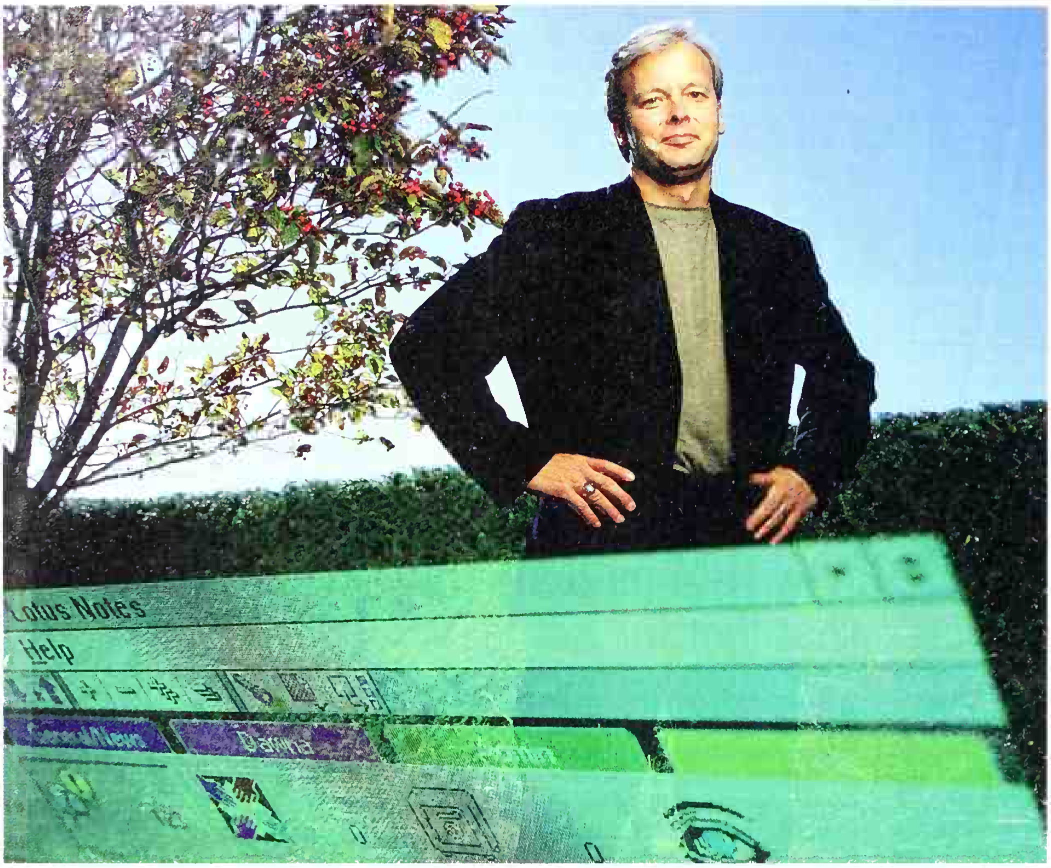
Groping For Groupware

IBM After years of trying to create its own groupware programs, Big Blue is purchasing the king of groupware: Lotus Development. Notes, Lotus' crown jewel, is now used by 1.5 million customers,making it the clear leader.

MICROSOFT The PC software powerhouse is still struggling with the development of its own groupware contender, Exchange.

NOVELL Leveraging its strength in networking, Novell is building programs, such as Groupwise, to work over networks.

ILLUSTRATION BY MATSU



MAN IN THE MIDDLE: *Lotus Notes creator Raymond Ozzie spawned an entire industry*

as a “platform” upon which to build additional applications—for managing a remote sales force, for instance. That has attracted many large organizations—such as Price Waterhouse, General Motors, and Compaq Computer—that need to connect widely dispersed workers but want a system tailored to their needs.

Take Andersen Consulting. The $3.45 billion consulting firm built a system based on Notes called Knowledge Exchange, which serves some 20,000 consultants around the world. When Andersen had only a few people working in a particular area, it was easy to know which one of them to call for advice, explains Charles M. Paulk, Andersen's chief information officer. Today, Andersen has over 30,000 employees worldwide, and the Notes system, says Paulk, “is how we keep up with ideas and developments around the world.”

QUICK SOLUTIONS. Knowledge Exchange, which Andersen launched three years ago, now consists of over 2,000 databases that consultants can tap into. Each specialized group has a database on the system and a “page” summarizing its contents and any relevant news. As employees add to their database, they build a library to store the group's collective experience and knowledge. So when a question relating to a project arises, consultants can check the Notes database to find an answer quickly. Employees can also use Notes for electronic consultations with each other. The result: Problems that once took two weeks and thousands of dollars to figure out are solved overnight, says Paulk.

Groupware on steroids: Notes could get a big lift from a version being adapted to work across AT&T's long-distance network

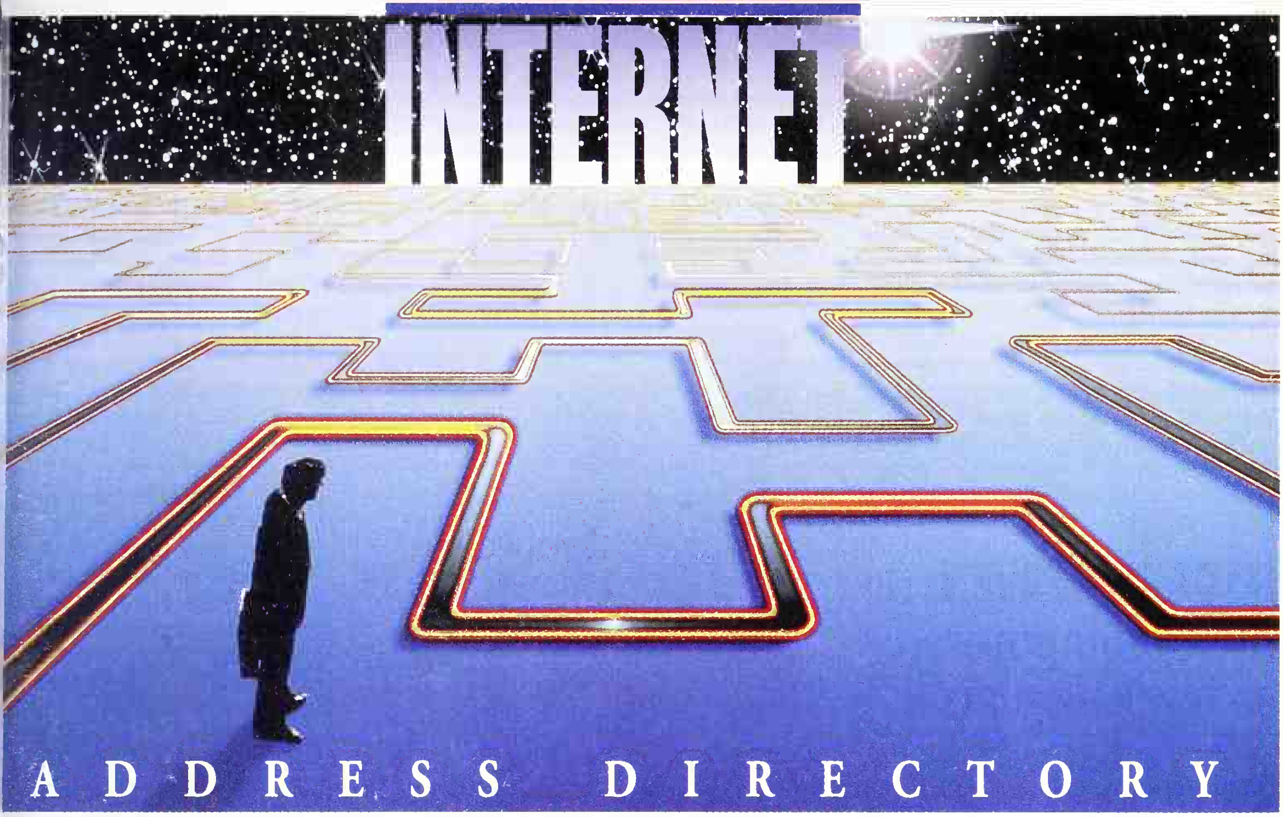
No wonder sales of groupware programs are taking off. Workgroup Technologies Inc., a Hampton (N. H.) researcher, predicts that sales of groupware packages of all types will more than double, to $4.2 billion by 1999, from just over $2 billion in 1994. Why? Because “ networked PC,” is tential customer, Raymond E. Ozzi programmer who ed Notes and the dent of Lotus’ unit Associates. So, groupware gold ru on. Startups like bra Software and Group, as well as Novell, Oracle, an crosoft are jumpi Microsoft’s Exch groupware packa due out by yearen

Notes, on the m since 1990, has the A whole industry velopers, consultant systems integrator evolved to help cust and install the pro for some 1.5 millio ers. And IBM is pre to back the product its global sales forc legions of consultan

In theory, that propel Notes into a tral role in thousan corporate networks- ing it greater stra importance than an operating system. In reality, for N to compete with the Windows ju naut, it must become a standard. N Version 4.0, due later this year, help. The upgrade will give No sleeker user interface and make it er for network administrators to age. But important, it be better s for sharing i mation be one comp whether ove Internet or private netw The new ve will be abl serve thous of users make it easier for one company to another access to its Notes server

The big boost, however, could from Network Notes, a version adapted to work across AT&T’s long tance network. Call it groupwar steroids. Already, companies suc Compaq and Egghead Software testing Network Notes to share i mation with customers, partners,

BusinessWeek



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field offices. IBM plans a similar system, pairing Notes with the IBM Global Network, which serves 25,000 corporations.

The lure of Notes on these private networks, says Lotus, is that it will provide the far-flung access of the Internet without the chaos or risk. Like the Internet itself, Notes is now mainly a means for disseminating information—say, product and pricing data to customers. But in its beefed-up, long-distance version, it could be used for electronic commerce—for buying and selling everything from industrial goods to the latest fashions.

The biggest competition from Notes may not be other groupware programs, but the Internet. The Net's World Wide Web is already being used as a sort of poor man's Notes. "The World Wide Web will do more than Notes," says Robert D. Kutnick, chief technology officer at Quarterdeck Office Systems Inc., which is developing Web-server software. And it's cheap. For less than $500, he says, you can set up a Web server for an entire corporate network—much less than $275 per workstation it would cost with Notes.

Still, no Internet setup has yet matched all the useful features of Notes. One of the most difficult to duplicate is replication, which ensures that eve there are thousands of users, they have the latest version of a docum or database. And like everybody els the high-tech world, Lotus has figu that the only way to beat the Interne to join it. Notes 4.0 will tap into the and convert Notes databases into Web format known as HTML (hypert markup language). The payoff of c bining groupware and the Internet— of the hottest technologies around—c even be worth a $3.5 billion bet.

By Amy Cortese in New Y
with bureau rep

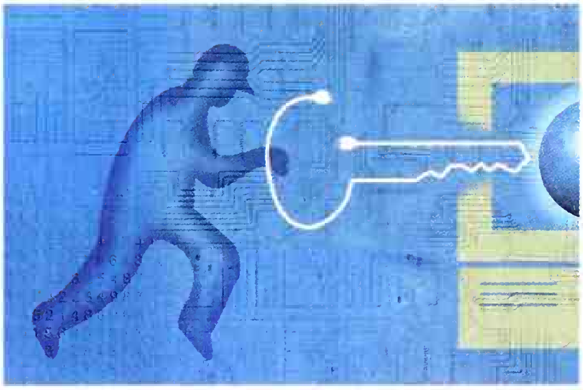
HACKER HEAVEN: So many computers, so few safeguards

Ever since armed men guarded the "electronic brains" that cracked Nazi codes, securing data against theft and tampering has been a concern in computing. With today's distributed computing networks, though, it's enormously more difficult to keep unauthorized users out and data secure. Networks, as the Office of Technology Assessment reported to Congress last year, "can make every user essentially an 'insider' " with the potential to clobber vital information systems.

It's enough to make you want to yank out those network wires. But that won't be necessary, experts say, if businesses adopt a new approach to network security. With so many modems and local-area network (LAN) connections installed on so many PCs, and with private and corporate connections to the Internet proliferating, companies must take it for granted that every computer on the planet can now reach and possibly meddle with any other—and will, if appropriate protection isn't in place. "We assume that everyone is a hacker," says Carmine Villani, vice-president of information management at McKesson Corp., a drug wholesaler. "That's the only way."

The range of security measures for PCs and LANs is expanding daily. Devices originally designed for spy agencies are now standard corporate issue. Security Dynamics Technologies Inc. and LeeMah Datacom Security Corp., among others, supply pocket-size cards that generate a brand new password every minute. Biometric devices can now identify people by the size of their hands, patterns in retinal blood vessels, or the dynamics of their voice or handwriting.

Connecting your network to the hugely popular Internet opens it to potentially millions of largely unidentifiable visitors—of whom, you can be sure, at least a few are malicious, and even criminal, hackers. To keep the bad guys out while still allowing insiders full access to the Internet, many organizations are setting up "firewalls"—gateway computers programmed to block unwanted traffic arriving from the Net. "It's like having a big bouncer at the door," says Rick Tinsley, assistant vice-president at the Vivid Business Unit of Newbridge Networks Inc., a maker of networking hardware.



"Firewalls" block unwanted traffic–"It's like having a big bouncer at the door"

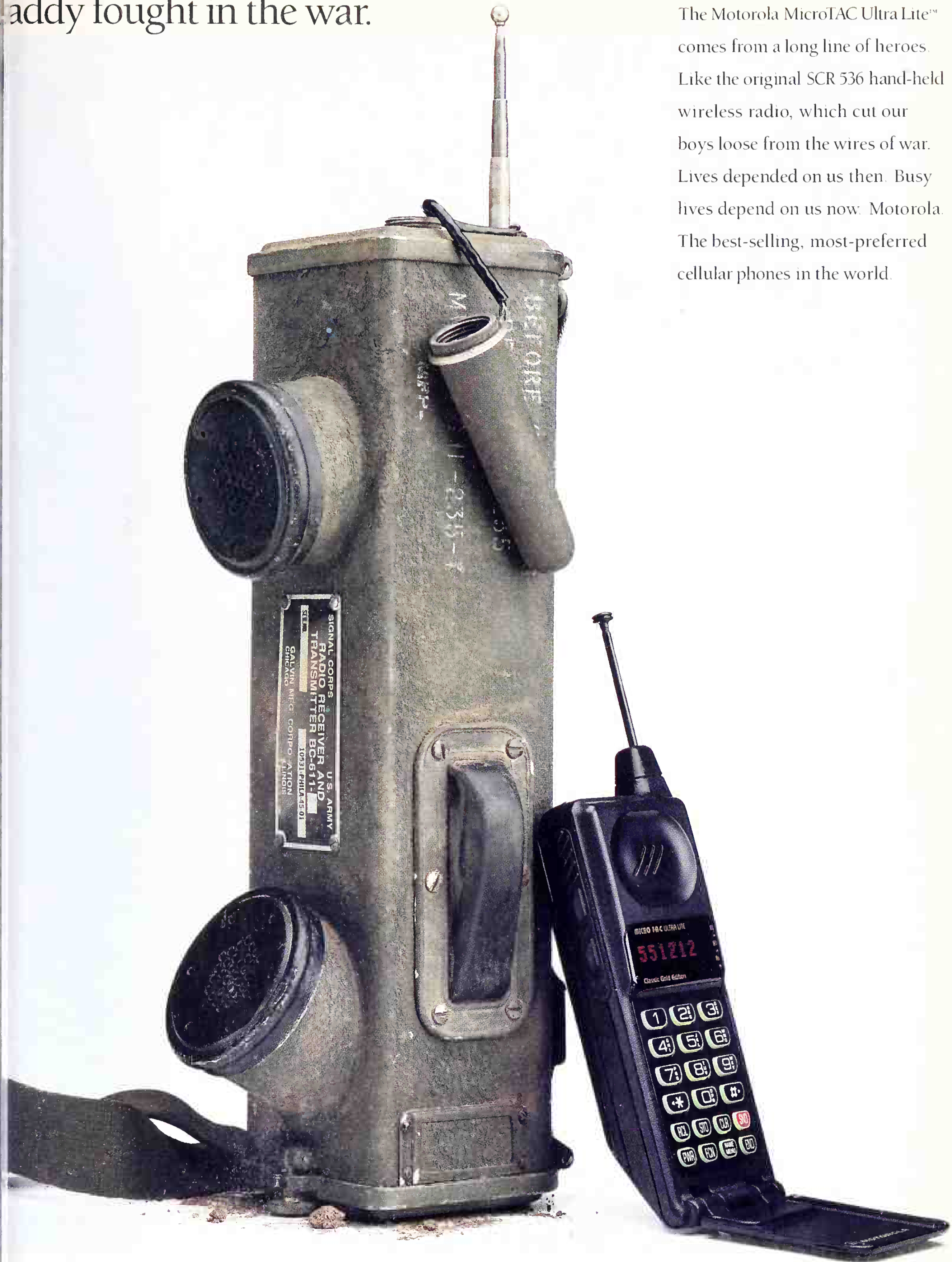
To keep information away from prying eyes as it moves beyond the local network, companies are also encrypt their traffic with secret codes, or k This raises a new issue: When milli of individuals and corporate enti are doing business in cyberspace, e using a unique key, who will manage of those keys? Who'll keep offi record of them? A government age perhaps, such as the post office, o private company? "No one's done for 100,000 people, much less a lion," says Geoffrey Baehr, chief work officer at workstation maker Microsystems Inc. "It smells like opportunity to me."

One company that seized the opportunit Northern Telecom I The phone-equipm maker now sells a gram called Entrust t besides helping man large numbers of k and protecting netw traffic against sno makes sure messages rive intact and veri that senders are they say they are.

Indeed, network curity is a field rife opportunity—and knowns. Baehr and colleagues at Sun working on strategies countering so-called nial-of-service atta Using a powerful c puter, an adversary c effectively shut dow company's Internet server by bomb ing it with false messages. One s tion: a new breed of firewall sys programmed to continuously look for and then block such threats. It shows: For every solution in cy space, there's always another prob to solve.

By John W. Verity in New

addy fought in the war.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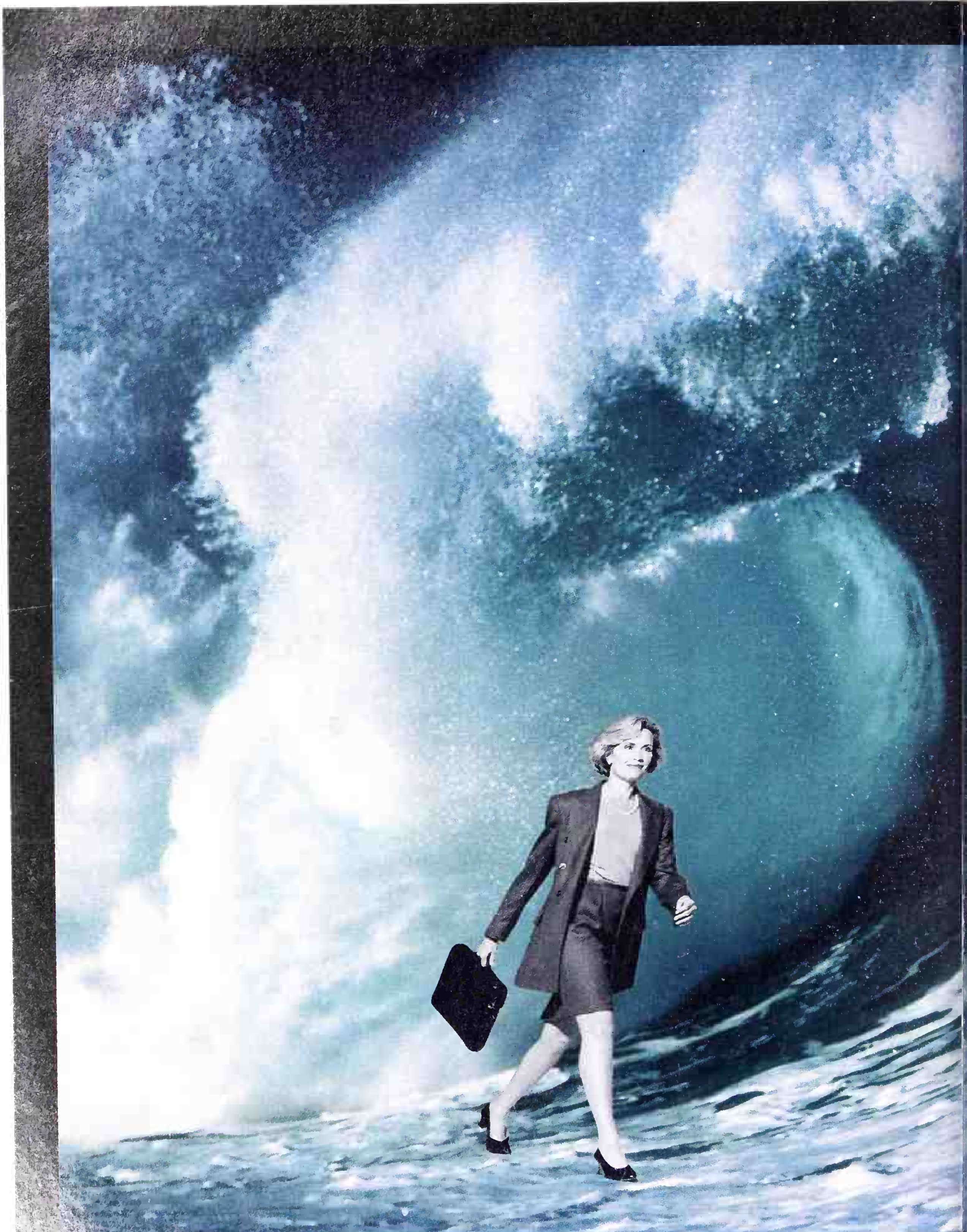

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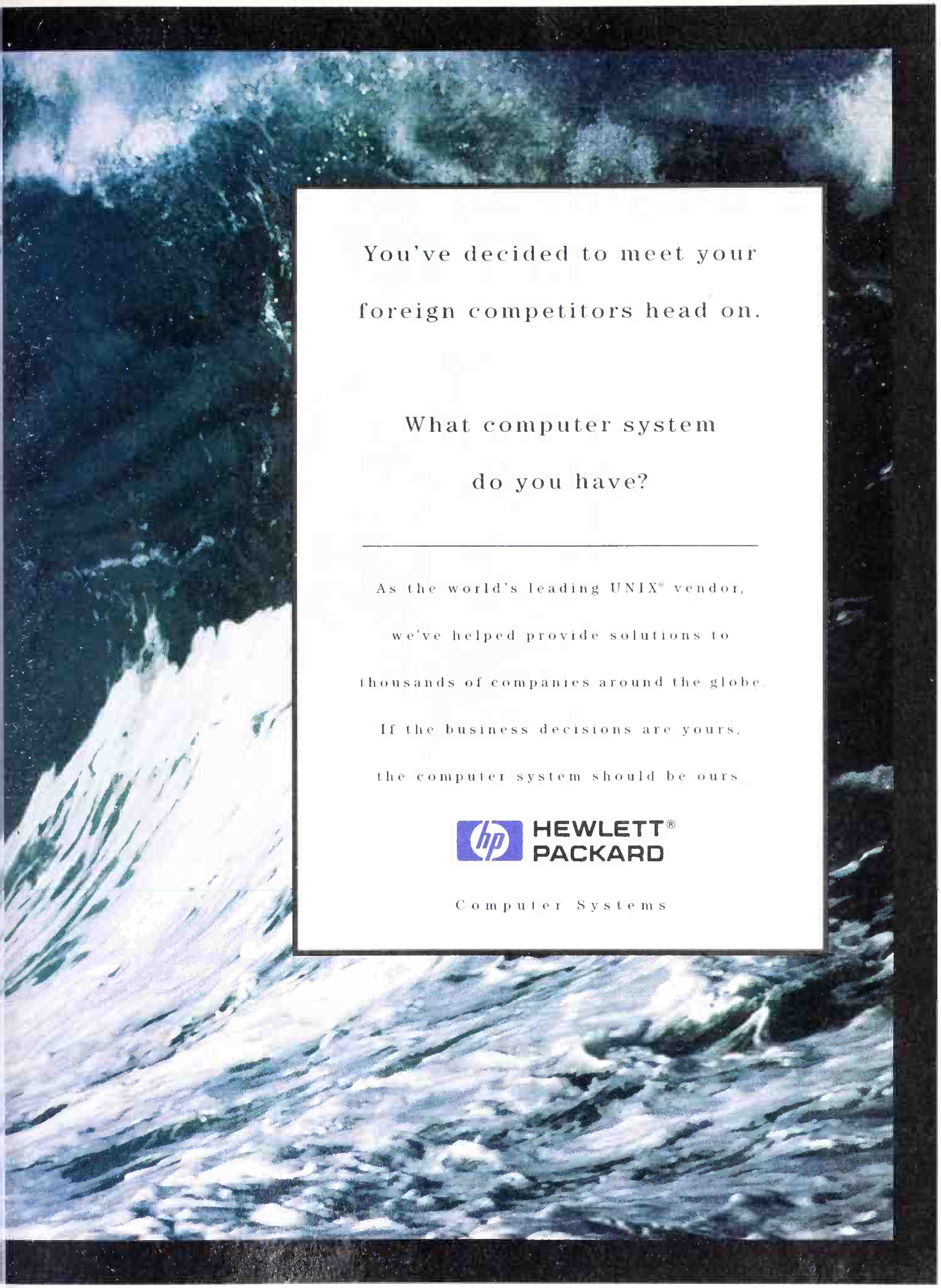

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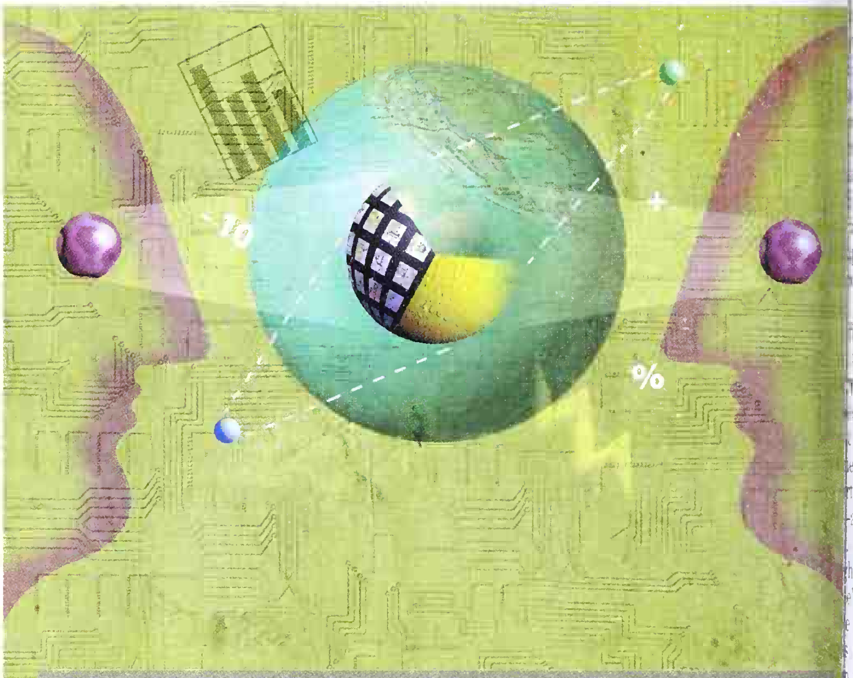
BIG BUSINESS ON THE NET? NOT YET

Everyone's interested, but little real action is likely until security tightens

For millions of PC owners, there is only one network that really matters, and that's the Internet. This vast collection of interconnected computers is the fastest-growing network around: More than 25 million people will have access to the Internet by the end of this year, a more than tenfold increase from 1990, says Boston-based market researcher Yankee Group. The primary driver of this explosion of Net surfers is not interest in the Internet's educational offerings or even its famous (and infamous) chat areas. Today, the Net is being overrun by the business world. Yankee estimates that more than 21,000 businesses—up from just over 1,000 in 1990—are connected to the Internet. Today, more than 75% of all new users are logging on via corporate connections.

Even in the midst of this rush, however, business executives and information systems managers keep asking the same question: What exactly will the Internet do for me? "Right now, companies are pretty much still kicking the tires of the Internet," says Stephen Franco, a Yankee Group consultant. "They're not completely comfortable with it." The companies that have gotten around to hooking up to the Net are using it primarily for communications (table). Just as an internal local-area network (LAN) allows workers to share project data within the office and schedule meetings via E-mail, the Internet is emerging as a convenient way to approximate the same interconnectivity with staffers around the world.

MAJOR SAVINGS. IBM, for example, has a project aimed at supplanting its 20-year-old worldwide PROFs network, a mainframe-based E-mail system, with the Internet. Code-named Apollo, it provides 140,000 employees with access to corporate news, colleagues' telephone numbers, and other internal data. This setup can also provide access to people outside the corporate network. "The biggest productivity gain is not in keystrokes or



How the Net Can Fit In

In a recent survey of companies, market researcher Yankee Group found these functions are what corporations are currently using or planning to use the vast Internet for:

FUNCTION	DESCRIPTION	CURRENTLY DOING	PLANNING TO
INTERNAL COMMUNICATIONS	Keeping distant offices aware, with E-mail, of changes at headquarters	30%	14%
EXTERNAL COMMUNICATIONS	Suppliers and contractors can track inventory or project schedules	49%	27%
ADVERTISING	A Web page is an information-rich way to advertise	8%	33%
SELLING PRODUCTS	Cut out the middleman and sell directly to the public	5%	35%

DATA: YANKEE GROUP, BUSINESS WEEK

things faster," says John R. Pat- BM's vice-president for Internet ap- ons, "but the ability to reach out bserve firsthand what customers nd competitors are doing."

Sterling Software Inc., a $434 Dallas software maker, the Inter- as been a great way to keep its employees in 75 worldwide offices ch with headquarters and custom- he company uses the Net to dis- e E-mail, keep its various sales connected with far-flung research evelopment labs, and to perform ctive demonstrations of software ents.

t important for Sterling, the Inter- a whole lot cheaper than other rks. Geno P. Tolari, president of stems group, says that just to hook the mainframe computers in its with dedicated phone lines would ost $500,000. And since the compa- ows by acquiring smaller software nies—each of which uses a differ- -mail system—there would have arge recurring charges for licenses pgrades of the various programs ostly high-speed phone lines. By the Internet for day-to-day busi- unctions, "we estimate we save $10 million per year," says Tolari.

Y PLATES. For many companies, st thing about the Net is that it's step on the road to "electronic erce," which means carrying out ts of transactions between compa- and consumers—across the net- To do business on the Net, , a company must first have an " customers can visit. That's the World Wide Web (WWW) in. This graphics-based network the vast Internet contains thou- of "home pages" created by one from neophytes coming in via ercial services, such as Prodigy, e multinationals.

this point, though, a Web page e little more than an electronic plate on the Information Super- ay. The best Web sites offer key ation about a company, such as , how, and why to buy products. e majority are little more than ech ads. "No one can say what eed to do there. Companies have themselves: 'Does it really help do your job better?'" says Daniel rt, director of the client/server cal-services group for Electronic Systems Corp.

ile companies clearly see a future ectronic commerce across the et, few are prepared to take the e now. They're waiting until the an offer the same level of con- d security that they can achieve heir internal LANs. "Right now, the large commercial customers that I deal with have great reservations about the Internet for any mission-critical applications," says John T. Losier, president of Bell Atlantic Corp.'s large business-services unit. "There are security issues, network-access issues, control issues."

ONE BIG LAN. The good news is that these questions are being addressed. Novell Inc. and AT&T, for example, will introduce a secure alternative to the Internet later this year called AT&T NetWare Connect Services. The network will be run by AT&T, with Novell supplying software technology it has developed to make the worldwide network seem like one big LAN. Using its 12 years of LAN-software experience, Novell says it can provide a central directory that offers information on all resources on the network and keeps track of a network user's access rights to those resources—just like an internal corporate LAN. Others are also working on providing so-called secure-transaction schemes (page 96).

Finally, before corporations can seriously consider doing business on the Net, they need to make sure consumer and business transactions will be secure. Analysts estimate that it will take 12 to 18 months for a widely accepted method of encrypting transaction messages to take root on the Internet. Until then, the Net is likely to remain an interesting byway on the road map of corporate networks.

By Paul M. Eng in New York

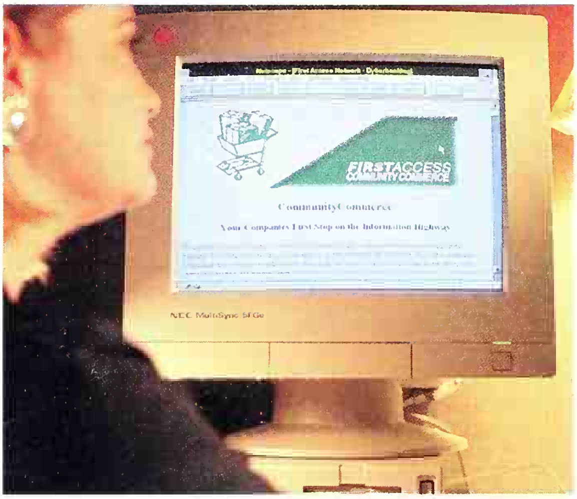
closeup

WHAT EVERY VIRTUAL MALL NEEDS: A VIRTUAL BANK

Think that only Silicon Valley technoids and new media hipsters are setting up shop on the Internet? Think again. First Union Corp., a superregional bank in Charlotte, N.C., is about to launch the Internet's first bank-sponsored electronic marketplace.

When CommunityCommerce opens for business this summer, it will operate as an electronic mall, with virtual tenants such as Naturally Fresh Co., a gourmet food producer, and the Durham (N.C.) Bulls, a minor league baseball team. Just "outside" the mall on another screen will be electronic banking offerings from First Union. Banks "have always been a central part of a community," says Bill Farris, First Union's senior vice-president for marketing and strategic planning. This, he says, is "just a natural extension."

COMPETITION ABOUNDS. CommunityCommerce was the brainchild of First Union CEO Edward E. Crutchfield. Worried about inroads into his businesses by nonbanks operating with lower costs, he wanted to build a service-delivery system that would cost less to operate than a branch and still be easy for customers to use. To make transactions secure, the system encrypts credit card numbers before they hit the Internet.

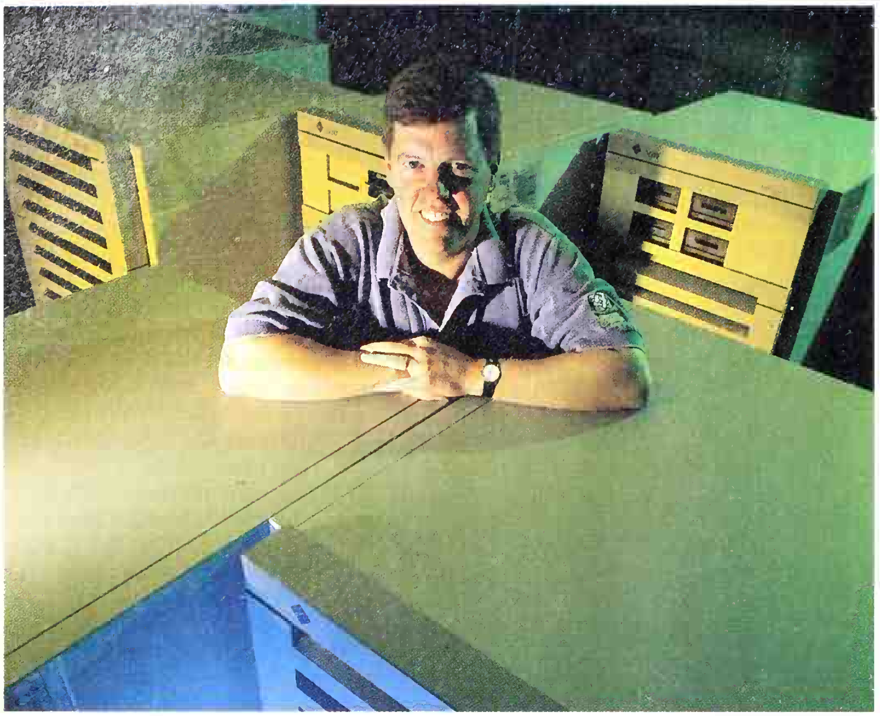


SHOP TILL IT CRASHES: *Prototype of the E-mall*

TERRY PARKE

So far, only about 1% of banking transactions are conducted from home. Meanwhile, First Union already has plenty of competition in electronic commerce on the Internet from the likes of MCI Communications Corp. But the bank is determined to establish a big presence before rivals do. "The train's coming down the track," says Edgar D. Brown, senior vice-president for alternative delivery. "You can either throw the switch and try to have it come your way, or watch it go by."

By Kelley Holland in New York



CEO McNEALY: *To "run Sun on Sun" would show others it could be done*

PHOTOGRAPH BY ROBERT HOLMGREN

HOW TO KICK THE MAINFRAME HABIT

At Sun, the network finally is the computer

If Chief Executive Scott McNealy had gotten his way back in 1987, Sun Microsystems Inc. would never have purchased the mainframe computer that still runs its manufacturing. As the booming workstation maker outgrew its minicomputer systems from Hewlett-Packard Co., McNealy insisted the company should "run Sun on Sun." If Sun did everything strictly on a network of its own workstations and servers, he reckoned, it would prove that customers could do the same. But he lost: The board outvoted him 11 to 1 and went with Amdahl mainframes.

McNealy has finally prevailed: His dream of running a multibillion-dollar business entirely on a network is about to come true. Two years ago, Sun shoved its mainframe out the door, hiring Computer Sciences Corp. to haul it away to a CSC computer center in San Diego. Now, Sun is ready to cut the connection altogether. Vows McNealy: "Early next year, we're pulling the plug."

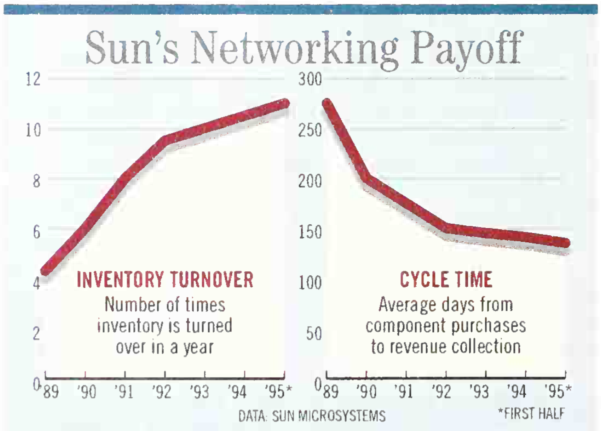
It will be little more than a formality. Thanks to advances in the powers of Sun's workstations, servers, and the software that binds them, the company is already living by its trademarked corporate slogan: "The network is the computer." The lone mainframe is merely one of 230 servers feeding 22,000 workstations on the Sun network. And it's already a persuasive sales tool. Says
Dennis W. Walsh, chief information of
cer at Entergy Corp., a $6 billion utili
in New Orleans, which is running eve
thing but its billing system on a n
work of Sun computers: "You can
there and see it working."

SURPRISE. Warts and all. Even the se
proclaimed leader of networked co
puting has had to deal with the issu
facing thousands of other business
trying to live on a network. Dela
missteps, and internal resistance ha
added years and millions of dollars
the process, Sun concedes. Surpri
No. 1, says William J. Raduchel, Su
vice-president for corporate planni
and development: The biggest obsta
isn't technology, but people. Even H
ris Kern and Randy Johnson, the ma
agers charged with carrying out t
transition, didn't believe it could
done. Nor did Sun's engineers, who
sented having to adopt mainframe sa
ty measures such as regular data ba
ups and using standardized softwa
Only after years of negotiation and s
tem outages were they convinced t
central coordination was a must.

The next problem: Off-the-shelf s
ware to run critical operations on a
bal network, and share data simply
n't exist. So Sun painstakingly had
write its own. SunDANS, for insta
zaps new applications across the
work to the individual machines wh
they are needed. Now a new applicat
is up in a day, instead of the weeks
months it took with the mainframe.
other program, Sun Paperless Repor
automatically distributes data in easy
read report form, saving millions
printed pages a year.

All this networking is already refl
ed in Sun's bottom line. For insta
since managers now have faster acc
to inventory and or
data, Sun takes only
days to log reve
from the time an or
is taken, down from
days in 1989. That
helped generate s
$700 million in c
Sun's earnings are
pected to jump ab
80%, to $350 million
a 26% increase in sa
to $5.9 billion, in the
cal year ending June

Sun is far from d
with its network, h
ever. An early devel



Sun's Networking Payoff

DATA: SUN MICROSYSTEMS

*FIRST HALF

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ther it's industrial size or a more personal version, you always get full strength in a GMC Truck. eed, you'll find the strength of the big Topkick is embodied in the Sierra. Its body panels are made of ble-galvanized sheet metal. Even its frame has a similar C-channel design to the one used on our lium duty trucks. Of course, there's more to Sierra than steely functionality. We've added standard -wheel antilock brakes, along with a driver's-side air bag*on Sierra models below 8600 lbs. GVWR. with Sierra's independent front suspension, you'll get a smooth, comfortable ride on most any road. slide back into the accommodating new interior, then pity the poor souls bouncing around in lesser ups. All in all, Sierra is everything you'd expect from a company with over 90 years of truck experience. you're looking for strength, Sierra delivers. Big time. For more information, call 1-800-GMC-TRUCK.

uality Network

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THE STRENGTH OF EXPERIENCE

and user of the Internet, it's adopting the Net's World Wide Web format to make company data more easily available. Employees can simply click on a word or phrase, and they're instantly connected to more detailed information on that subject. And Sun is at the forefront of using the Net for electronic commerce—forging digital links with suppliers, resellers, customers, and software companies. Raduchel is also setting up a Web server for the chief information officers of Sun's top 10 customers to exchange tips. Says Raduchel: "We're moving from a computing castle to a computing community."

PROMISES KEPT. The toughest transition, though, still looms—moving manufacturing support off the mainframe and onto the network. Sun had hoped to unplug the mainframe last year. But Oracle Corp. was late with its customized networked program for manufacturing resource planning. Also, to ease transition to the network, Sun decided first to simplify its manufacturing operation by consolidating distribution warehouses, reducing its supplier list, and farming out packaging and delivery. With the reorganization mostly complete, Sun hopes to move the last manufacturing operations off the mainframe by February in the U.S. and by August, 1996, elsewhere. By then, it will be able to make production changes daily or even hourly instead of biweekly, says John C. Shoemaker, vice-president for worldwide operations. The final step, due to start in August, is a data-sharing scheme that will end the need to write complex middleware software between every program. Sun will "broadcast" every key transaction over the network, and each operation will receive only the data it needs, translated automatically for their programs.

Network computing hasn't been nirvana. It often requires spending more on computer equipment and staff in each location. "At the end of the day, this might not be cheaper than mainframe computing," says Sun Controller George Reyes. But there's the benefit of increased overall efficiency (chart, page 102).

Perhaps more valuable, the network has become Sun's chief selling tool. Says James Stikeleather, a partner with Tampa computer consultant Technical Resources Connection: "They've been able to do what they promised." Indeed, Sun has literally written the book on networked computing: *Rightsizing the New Enterprise*, by Kern and Johnson. Now, Sun has to keep living up to its claims.

By Robert D. Hof in Palo Alto, Calif.

WELCOME TO THE OFFICELESS OFFICE

Telecommuting may finally be out of the experimental stag

It doesn't matter much that Mia Daniel, a sales manager for American Express Co. who lives in West Palm Beach, Fla., rarely sees her supervisor or spends little meaningful face-time in the office—she's still in the loop. She even gets a daily cheerleading missive from her boss via AmEx's private network to her laptop, wherever she is working. "Let's end this year with a massive finish," reads one. "THINK BIG. THINK GIGANTIC. THINK HUMONGOUS. THINK ABSOLUTELY ASTRONOMICAL. DON'T STOP AT NOTHIN'."

ON A SALES CALL: *AmEx' Daniel*

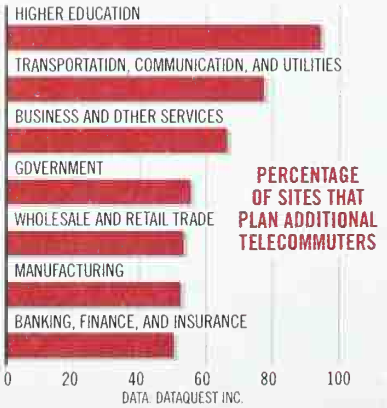
Most of all, don't stop at headquarters. Daniel and the entire 240-member core sales staff at American Express Travel Related Services Co. are telecommuters, members of the labor force who have chosen to, or have been told to, work anywhere, anytime—as long as it's not in the office.

With groupware, digital phone lines, and wide-ranging cellular networks, wherever these workers are can be a node on the corporate computer network. Market researcher Link Resources says the 8.4 million telecommuters out there today represent the fastest-growing portion of the work-at-home set. It expects the number to exceed 13 mill by 1998.

The push to telecommute has gai momentum through federal incenti to reduce air pollution, corporate effo to cut office space, and the need to h key talent. Take Northern Telecom Lt Tennessee-based service operation: wanted to hire W liam G. Holtz l year as vice-pre dent for global terprise services, the former Uni Corp. executive fused to leave Ph delphia. North Tel got him anyw and Holtz n supervises a staf 1,000, including Nashville-based s retary, from home in Ph "There's nothin can do in an of that I can't do home," says Ho "And you elimir the cost of hav an office just drive to and sit i

DESK SET. Com nies' efforts to costs have led some interesting periments. Erns Young has im mented "hoteli in which up to people share single desk in a ly equipped of on an as-nee basis. Employ must reserve in vance. Over past three ye the accounting has slashed office space requ ments by abou million square f

Employee Go Home!



DATA: DATAQUEST INC.

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saving roughly $25 million a year.

But the mobile concept of work does not come easily to all. For now, it's mostly salespeople and other travel-intensive staffers who are moving out of the office, on the theory that they weren't around much to begin with. Many companies still like to keep an eye on the troops. "This isn't the same workforce we had even 20 years ago," says Joel Kugelmass, author of *Telecommuting: A Manager's Guide to Flexible Work Arrangements*. "But we're managing the same way we did 100 years ago."

New technology could help. Affordable desktop videoconferencing means that more home-office workers can beam in as needed. Vivo Software Inc. just launched TeleWork-5, a $1,495 software-based package that lets telecommuters use video, share documents, and surf the Internet. In April, AT&T, Intel, and Lotus teamed up to develop new videoconferencing products that exploit AT&T's WorldWorx Network Services, Intel's ProShare videoconferencing system, and Lotus' Notes software. "The last bastion of defense for reluctant managers is 'How can I supervise them if I can't see them?'" says Jack M. Nilles, president of JALA International, a Los Angeles consulting firm. With videoconferencing, he says, "that goes away."

FANCY PHONES. Local phone companies are also waking up to a huge market in the making. All seven Baby Bells are rolling out integrated services digital network (ISDN), speedy phone lines that can carry voice, video, and data simultaneously. ISDN had been hampered by spotty availability, installation headaches, and high prices, but the Bells started improving their offerings last year. ISDN is now available in about 80% of the country, at fast-dropping prices—Pacific Bell offers it for as little as $23 a month.

But fancy phone lines will not a telecommuter make. Many of the companies that allow telecommuting on an ad hoc basis provide home workers with out-of-date laptops and slow modems. David Goodtree, an analyst with consulting group Forrester Research, contends that companies need to turbocharge the home office with speedier equipment. The cost of outfitting a telecommuter with the right gear is about $4,500 for the initial setup and $2,150 in annual upkeep. The corporate infrastructure also needs a makeover, with modern remote-access computer servers and toll-free phone support to use when at-home setups have problems. With all the pieces in place, more companies can then follow the lead of American Express and THINK HUMONGOUS.

By Edward C. Baig in New York

WIRELESS DATA: STILL TRAPPED IN THE OZONE

It must overcome glitches, cost, and cultural resistance

Wireless data was supposed to be the next big thing in networking: Over nothing but thin air, mobile workers could relay E-mail, purchase orders, and inventory reports as if they were deskbound. The idea is as good as ever, but the reality hasn't caught up. At General Electric Co., for instance, only 5% to 10% of the wireless communications budget goes for data; the rest is for voice. Jerry W. King, GE's manager of telecommunication technology, says that most workers do need moment-to-moment access anyw Asks King: "How does the salesm really work, as opposed to this ide the technologists have of checking yo E-mail every 15 seconds?"

King and others say wireless da networks cost too much, don't offer u versal coverage, and don't mesh w with their wired data networks. The r sult: Yankee Group Research Inc. Boston consulting firm, estimated l

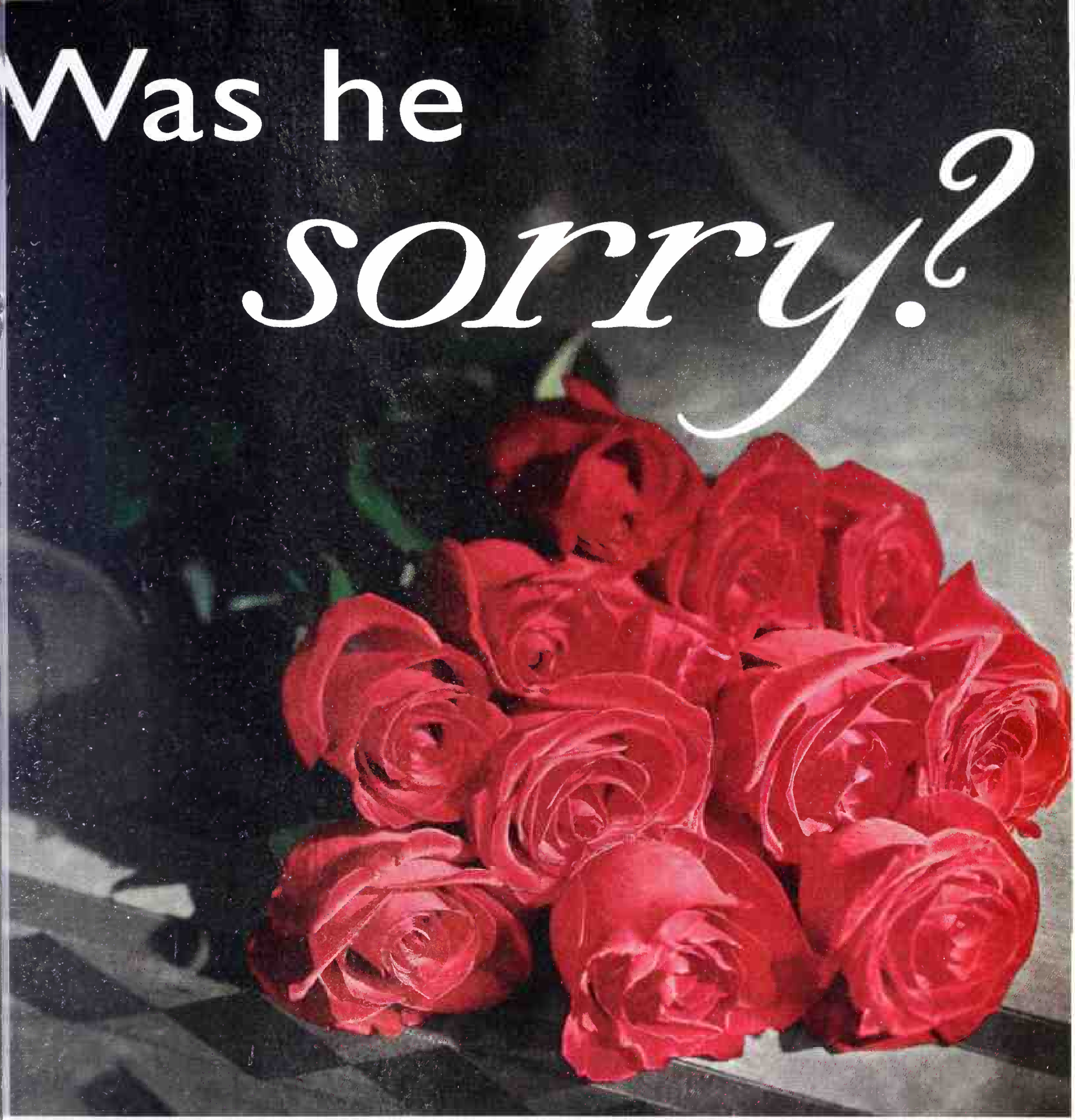
Moving Data Over the Airwaves

Some Promising Approaches

TECHNOLOGY	DESCRIPTION	USES	ADVANTAGES	DISADVANTAGES
CELLULAR NETWORKS	Radio modems in laptops use cellular voice channels	Transferring files	Available over existing network	Expensive
CELLULAR DIGITAL PACKET DATA	Packets of data fill idle gaps in cellular network	Short bursts of data such as messages	Price, speed, reliability	U.S. rollouts behind schedule
PRIVATE PACKET RADIO	Private radio networks that transmit packets of data	Bursts of data	Nearly nationwide coverage	Expensive for large transfers
ENHANCED SPECIALIZED MOBILE RADIO	Digital radio networks	Fleet dispatch, paging	Combines voice and data; all-digital	Limited availability

DATA: *DATA COMMUNICATIONS*, BUSINESS WEEK

NORTH
AMERICA


Was he
sorry?

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year that only 1.2 million Americans used any form of mobile data network. "We were naive to expect that it would take off immediately," says Roberta C. Wiggins, Yankee's research director on wireless mobile communications.

There's hope in the air, though. Suppliers of wireless data networks realize the deficiencies of today's systems and are working hard to eliminate them. Wiggins predicts that in two years improved wireless data offerings will begin to reach a mass market. In fact, Yankee forecasts that the number of U.S. customers will rise to 7.3 million by 1998.

OLD HABITS. Still, venturing forth with wireless data today requires careful planning. Wilson Sporting Goods won high-tech brownie points and even made a magazine cover for equipping its sales reps with laptops that linked up with Chicago headquarters via Motorola Inc.'s Ardis Co. wireless data network. But around six months ago, it went back to wired connections. The problem: It never persuaded most sales reps to enter orders from the road.

For now, the wireless data market remains dominated by traditional uses such as field service and fleet dispatch. Slightly more than half the customers use private, special-purpose networks run by the trucking companies, government agencies, and shippers, Yankee Group says. One third use cellular, either by hooking modems to conventional voice channels or sending on the cellular industry's new piggyback service, called CDPD, for Cellular Digital Packet Data. Satellite services come in next with 8%, dominated by Qualcomm Inc.'s data and vehicle-location service for long-haul truckers. Just 5% use the specialized data networks run by Ardis and Ram Mobile Data USA, a company affiliated with BellSouth.

Cutting prices is the first prerequisite to expanding wireless data's niche. Ardis and Ram charge about 15¢ for 600 characters, or more than 1,000 times the per-character rate for a wired transmission with a 14.4 kilobit-per-second modem. Hardware prices are stiff as well: IBM charges about $800 for its new line of radio modem cards for Ardis, Ram, or CDPD systems.

Network availability is another deficiency, though Ardis, Ram, and others continue to expand their coverage. The CDPD standard will eventually take wireless data services wherever cellular-phone networks reach. As yet, though, it's available in only a handful of markets. Ditto for Nextel Communications Inc.'s data network that uses mobile-radio (fleet dispatch) frequencies.

Finally, there's software. Applications that are designed for office-standard 10 megabit-per-second local-area networks aren't practical for wireless connections, which run about one thousand times slower. More than a dozen companies, including Motorola, are trying to solve that with middleware that sits in the wireless device and in a special network server and smooths the interaction between them.

Even as suppliers continue to tackle these bugs, there are plenty of happy wireless pioneers. Marcia G. Kadanoff, a principal in Miller/Kadanoff Direc
San Francisco direct-marketing fi
uses her Motorola Envoy digital as
ant to fire off questions to her staff
ing visits with clients. Generally, an
swer comes back before the meetin
over. Says Kadanoff: "I totally love
Envoy." But would she shell out n
than $1,000 apiece to equip her s
with Envoys? "If they came to me
day, I'd say, 'Love to do it. Let's
till the technology gets a tad cheap
That's why most roving workers
continue to look for a phone jack.

By Peter Coy in New

closeup

KISS THAT OLD PATIENT LOGBOOK GOODBYE

For the staff at River Hills West Healthcare Center in Pewaukee, Wis., the most dreaded chore used to be the paperwork. Each of the center's 245 residents was receiving multiple doses of up to 15 different medications a day. Every time a doctor wrote a new order, it had to be transcribed by a secretary to a phone order, a pharmacy sheet, and several other patient forms. These all had to be checked by nurses and then entered into a three-ring binder. Each month, nurses and secretaries spent about 64 worker-hours transferring records to new logbooks.

ELECTRONIC RECORDS: *A nurse with her notepad*

Since January, however, the whole routine has changed for about half the center's staff. Instead of transcribing orders, nurses write the fir
three letters of a drug's name on th
screen of an electronic notepad calle
a CompuScriber. A list of choices ap-
pears on the screen, along with boxes to check off for doses and time o
day. Once these items are filled in, the device automatically zaps the information over a 900-Mhz wireless link to the River Hills network server. Records are instantly updated, thus eliminating abou
five stages of paperwork. "To say it's made life easier is an understatement," say
Assistant Director of Nursing Martha Kath

At first, nursing staff had mixed reactions to CompuScribe
which CompuPharm Inc., a division of GranCare Inc. in Atlanta, constructed fro
a Toshiba 486 notepa
But in just six month
two of the four units had made the switch at River Hills, which is run by GranCare. The remaining two should be online by summer's end. Next, they'll tap the system's vast data processing powers. It can prepare everything from cost tables to lists of patients recei
ing specific medications.

By Neil Gross in New Yo

Old Tradition

New Thinking
Kozeny
anager

CZECH REPUBLIC ['chek ri'pablik] • Premier Václav Klaus;
ion of 10,5 million; stable government; parliamentary democracy;
d budget; GDP 2,5%; stable exchange rate 1 USD = 27,8 CZK; low
n 10%; low unemployment 3,1%; high foreign currency reserves
4 billion; low foreign debt USD 9,1 billion; average monthly salary
ZK; PSE market capitalization USD 12,4 billion; 80% economy in
hands; skilled and educated work-force; convertible currency; free
ation of profits; tax treaties: U.S.A., Netherlands, Cyprus and others
ry: from 5th to 6th century arrival of Czech tribes; from 9th to 10th
y establishment of the Czech state, 1355 Charles IV, Roman
r and King of Bohemia; 1348 Charles University of Prague founded;
roclamation of Czechoslovakia; 1968 Prague Spring; 1969 procla-
of the Czech Republic; 1977 Charter 77; 1989 Velvet Revolution,
ng of democratic changes in society; 1990 the Czech and Slovak
tive Republic; 1990 establishment of HC&C, The Bill of Rights;
rst wave of privatization; 1993 dissolution of Czechoslovakia
tablishment of the independent Czech Republic; 1994 signature
nership for Peace agreement; affiliated member of EU; comple-
second wave of privatization; municipal elections confirmed
citizens strong support for market economy in November 1994.

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The Czech Republic

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FASTER PHONE NETWORKS? ANY DECADE NOW...

Upgrading local service is hampered by 60-year-old laws–but Congress may take actior

It's amazing what you can do with a corporate network these days. Fiber-optic cables and state-of-the-art digital switches can whiz data, video, and voice transmissions around an office in any combination. Everything works great—until an employee wants to reach somebody beyond the building. That's the moment when the Information Superhighway turns into a two-lane back road—otherwise known as the public phone system.

On many local lines, transmission speed drops from 10 million bits per second to 56,000 bits. You can increase that only if you're prepared to drop a bundle for leased private lines. Either way, your transmission costs go up. Public networks are not only slow, they're often expensive, too.

OBSTRUCTIONIST. This is one problem you can truly blame on Washington, where political in-fighting has gummed up efforts to deregulate the communications industry for years. If you doubt that deregulation will make a difference, consider the gulf between the U. S. long-distance market, where competition is fierce, and the tightly regulated local calling monopolies. AT&T, MCI Communications, and Sprint all offer state-of-the-art asynchronous transfer mode (ATM) switching, fiber networks, and high-speed Sonet transmission. Sprint has just completed a network upgrade and now guarantees all-digital service without interruption, even if a cable is cut.

Then, look at what local phone companies are doing. Of the seven Baby Bells, only U S West Inc. offers ATM service—to business customers only—throughout its 14-state region. Pacific Telesis Group is seeking regulatory approval to offer a similar service in California. But none of the seven plans widespread ATM deployment. They cite the morass of regulatory approvals and the heavy investment and reengineering of aging networks required as reasons for not pushing the new technology.

This is no time to go slow, however. "Technology is changing rapidly," says Daniel J. Miglio, CEO of Southern New England Telephone Co. "Public policy is trying its hardest to keep up with all this, but increasingly, public policy is becoming outmoded."

Worse than outmoded, telecom regulations can be downright obstructionist. Take the efforts by two local phone companies to upgrade their networks to carry video signals over phone lines—so-called video dial tone—enabling them to offer videoconferencing as well as compete in cable TV. This requires spending billions of dollars to replace copper networks with some sort of broadband technology. But before the Bells can even build a trial network to test the technology, they need approval from the Federal Communications Commission. In 1992, both Bell Atlantic Corp. and U S West applied for permission to build small trial networks combining fiber o tics and coaxial cable. This April, wi no decision in sight, the companies su pended their applications, saying t technology had advanced so much th they wanted to reconsider their optio

DISTANT GLEAM. But any new approa will have to go through the same app cation process, starting from scrat "We've had these permit proceedin held up literally for years," says B Atlantic General Counsel James Young. "And getting the constructi permit is only the first step in the p cess." Even after they built a video- pable network, the Bells would still ha to win approval for the channels th would offer and the rates they co charge.

With the Information Superhighw still just a distant gleam in the eyes media moguls, some critics s the FCC may ha

What a rollback of the rules won't do for phone carriers is erase generations of monopoly thinking

carriers from making a technology ke. But most analysts figure the and their customers would be bet-f if they could just go ahead, take k, and build something—the way ulated companies do. "The video one process at the FCC is a total " says Scott Cleland, an analyst ishington Research Group. "If the could get out from under all this, would be willing to invest much ."

is could be the year that happens. ressional leaders pledged in Janu-hat they would overhaul the na-60-year-old telecommunications by July 4. Right now, Washing-atchers give such a bill a 60%-to-chance of passing this year. Of e, that's what they said in —and legislation that seemed n to pass last summer died in enate in October over differenc-tween long-distance and local companies.

is time around, with the anti-ation Republicans in charge, the e is expected to pass a bill this 1. A draft is slated to reach the floor for a vote by late June or July. If it passes, and if differ-between the Senate and House ons can be ironed out in a joint nittee, President Clinton is al-sure to sign it. But those are s: This legislation affects long-nce and local carriers, cable-TV tors, broadcasters, and cellular-companies—industries represent-ne-sixth of the U.S. economy. With kind of money at stake, it is one of nost heavily lobbied bills Washing-as ever debated.

FOR-ALL? For corporate custom-he proposed legislation offers what want most: choice. If the bill pass-cal phone companies will suddenly competition from cable companies ong-distance carriers. Corporations h those industries are planning or already started building state-of-t local networks in key cities. With CC's powers greatly reduced, how-the Bells would find it far easier to back with new technology of their

nat deregulation won't do for local anies is erase decades of monopoly ing. Bell Atlantic's Young acknowl-that the phone companies deserve of the blame for not introducing r services sooner. "I don't want to the impression that, if it weren't he regulatory hurdles], we would done all this three years ago." The dragged their feet for years, for nce, on the rollout of integrated ces digital network (ISDN) lines, n can transmit voice and data 27 times as fast as regular phone lines. After all, why roll out new technology when customers have no choice but to keep buying the old? It still takes months to get ISDN installed in some regions, but the Bells are moving to meet rising demand from home-based workers and Internet cruisers.

But nothing is easy in public phone land. In March, the FCC decided that ISDN subscribers must be charged for each channel within the service as though it were a separate line. Since ISDN can have anywhere from 3 to 24 channels, the ruling could have raised ISDN costs by 40% or more. The Bells protested, and the FCC tabled the idea, but it's still looking at the issue.

If Congress passes the proposed legislation, the Bells will be freed from such oversight. Federal law would require that rates everywhere be pegged to actual costs rather than capped at a predetermined profit level, as about half the states do now. Not that callers need worry about prices soaring—the competition will see to that. Just look at California, where intrastate toll calling was thrown open to competition on Jan. 1. PacTel immediately cut its rates by 40%. "There is no question that the unit cost is going to come down," says Nynex Chairman Ivan G. Seidenberg. "That has been the case in all segments of the communications business." Such sentiments must be music to American industry's ears.

By Catherine Arnst in New York

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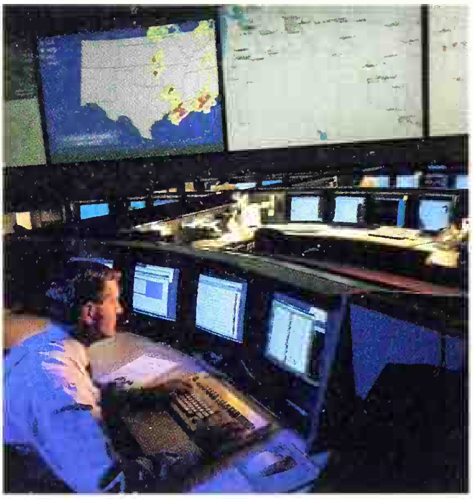
closeup

A RAILROAD FINDS A HIGH-TECH GUARDIAN ANGEL

When Charles S. Feld signed up as Burlington Northern Railroad Co.'s chief information officer in 1992, he found a networking nightmare at the Fort Worth-based freight railroad. There were incompatible systems for dispatching locomotives, cars, and crews, and no central oversight for a rail empire that stretches from Mexico to Seattle. If a flood or broken switch forced changes in traffic, isolated dispatchers in places like Alliance, Neb., and Springfield, Mo., simply had to adapt when extra trains unexpectedly poured into their regions.



COMMUNICATIONS CENTER: *Casey Jones now gets to see trouble ahead*

DOUG MILNER

The company is now two years into a four-year reengineering plan meant to change all that. The centerpiece is a $120 million state-of-the-art communications center opened in April. There, dispatchers can view up-to-the-minute status reports of the entire rail system and national weather maps on massive 18-foot screens. When trouble crops up, a wireless phone system lets them roam the 183,000 square foot compound at will. To get the information flowing into one central place, Feld installed computer hubs in eight cities that give dispatchers in Fort Worth direct control over the trains.

CARGO LOCATORS. Gains should be evident soon. In May, Burlington Northern published its first service schedule; before, customers had to wait for a train to become available. Burlington Northern expects to improve on-time delivery from 60% in 1994 to 90% by yearend. When its 70,000 cars are outfitted with radio ID tags this autumn, customers—some with their own in-house terminals—will be able to track their cargo 24 hours a day.

The former Frito-Lay Inc. CIO still has a lot left to do: Burlington Northern's network makeover is only 30% done. Once it's completed, the company should double its asset utilization. "The goal is to have all our trains moving all the time," Feld says. "If it works, it will mean the renaissance of rail." And replacing the iron horse with a cyber-horse?

By Peter Burrows in Fort Worth

“**So** we looked for groupware that could brin

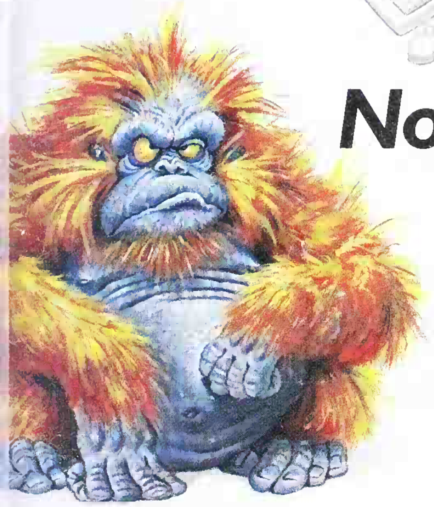
The first one was ***supposed*** to be user frien

The next promised compatibility.

been okay. If we had lots of **time** to was

group, isn't there something that can turn all together.

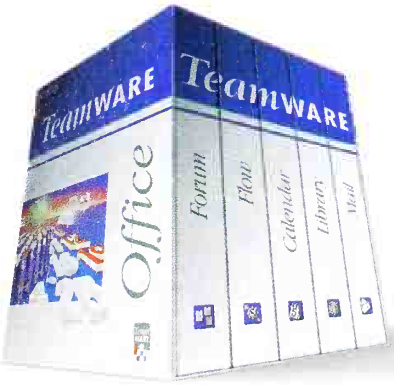
Not exactly.



ey lied. One would have

me on, we've got a good

a **team**?”



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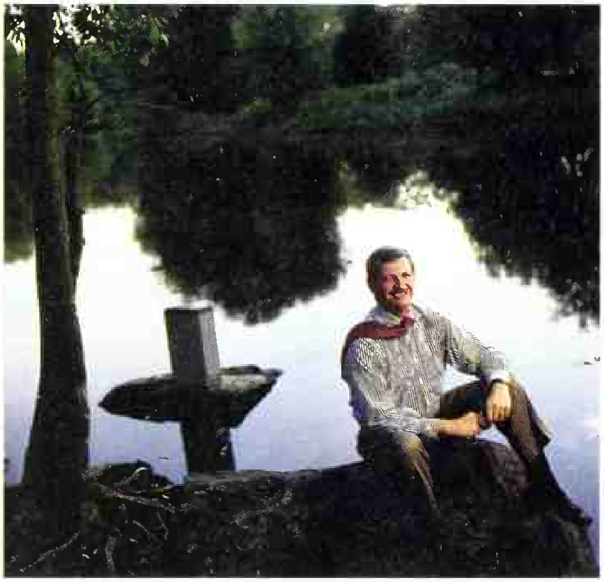
THE NEW SULTANS OF CYBERSPACE

It's virgin territory, and these upstarts are staking their claims


SEIFERT: *His "smart" LANs break up network jams*

Making computer networks live up to their promise is no mean feat. But entrepreneurs who tackle the problem stand to make a fortune. Take Cisco Systems Inc. A decade ago, it came up with a way to make local-area networks (LANs) talk to one another. In 1987, veteran Silicon Valley investor Don Valentine of Sequoia Capital plunked down $2.5 million on the outfit and the investment grew more than a thousandfold.

That rocket ride may be hard to match. Still, analysts and venture capitalists see roaring growth for companies that can upgrade the existing generation of network equipment. Hot groupware programs along the lines of Lotus Development Corp.'s Notes could also be a gold mine. And nearly everyone is romancing the Internet. "The party isn't over," says Valentine.

The most obvious plays are companies that can unsnarl digital traffic jams on LANs. Each year, as desktop computers get more powerful, the files they exchange get bigger and gobble up more bandwidth. To prevent bottlenecks, network companies are pushing a new generation of switching gear that breaks LANs into segments and then moves packets of data from one to the next.

HIGH-SPEED SWITCHING. So-called Ethernet switches speed things up. So does a newer approach called "asynchronous transfer mode" (ATM), which can switch up to 622 million bits of data per second. Dozens of companies are selling such upgrades. "Switching is the hot word in the LAN area," says venture capitalist Geoffrey Y. Yang at Institutional Venture Partners in Menlo Park, Calif. Network Peripherals in Milpitas, Calif., which makes such gear, went public last June and has since grown over 100% each quarter. Yang also likes Grand Junction Networks Inc. over in Fremont, which may go public by yearend.

Another opportunity: "smart" LANS that analyze traffic to break up jams. Agile Networks in Boxborough, Mass., has combined Ethernet LAN technology and ATM switching in one box, along with software "that automatically connects groups of users, wherever they are," says founder William M. Seifert.

One reason analysts like Agile is Seifert's track record. The 45-year-old CEO developed the first routers sold by Wellfleet Communications Systems, which
later merged with SynOptics to form
ant Bay Networks. Today, network us
have installed faster desktop compute
but LANs haven't kept pace. By narro
ing the speed gap, Agile's new LANs "
changing the paradigm in networkin
says customer Jeff Marshall, a Be
Sterns & Co. senior managing directo

Connecting networks between cit
poses other problems—and opportuniti
Phone companies have plenty of hi
capacity fiber-optic lines. But most
their switching gear was designed
voice traffic, where each call needs
separate connection. Computer us
don't need such dedicated circuits.
carriers are shifting to new approach
such as ATM and frame relay, which c
messages into packets and move them
bursts. Frame-relay products and s
vices alone will soar from $800 mill
last year to $2.8 billion in 1996, predi
Vertical Systems Group Inc. in Dedha
Mass. That's flooding the coffers of C
cade Communications in Westford, M
and StrataCom Inc. in San Jose, Cali

NOVEL SOFTWARE. Simplification is
order of the day. Keeping up with
flood of data pouring into a corpor
network used to require a tangle of t
minal adapters and a closet full of li
"It was a management nightmare," s
venture capitalist James Lally of Klei
Perkins Caufield & Byers in Menlo Pa
That's why his company invested in
cend Communications Inc., which
novel software for aggregating incom
data and funneling it to a LAN. Asce
solution: a sleek, modem-size box t
connects to an ISDN line. The ou
racked up sales of $20 million in the f
quarter of '95. Its shares, listed in M
1994, have increased in value sixfold.

The magic word now for investor
"Internet." Stocks of newly listed ac
providers, such as Netcom Online C
munication Services, have skyrocke
And investors are abuzz over a poss
initial public offering this year from N
scape. Launched by Silicon Graphics
founder James H. Clark, it makes s
ware to cruise the World Wide Web.

There's an Inter
play for every tast
from Golfweb to Voca
which lets Net sur
make long-distance ph
calls. Says Instituti
Venture's Yang: "Any
that's related to
Internet is hotter th
pistol." Who knows?
could be the next Cis

By Neil Gros
New

The magic word now for investors is "Internet": Stocks of newly listed access providers have skyrocketed

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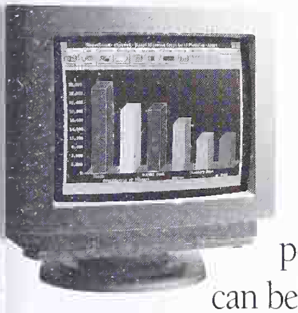

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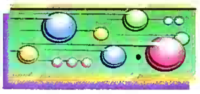

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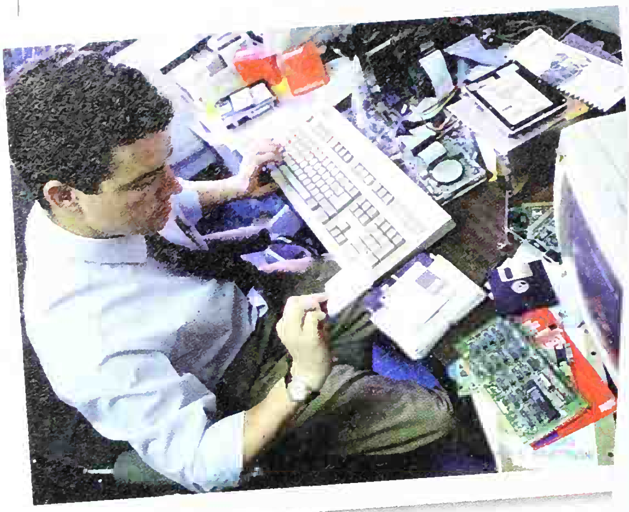
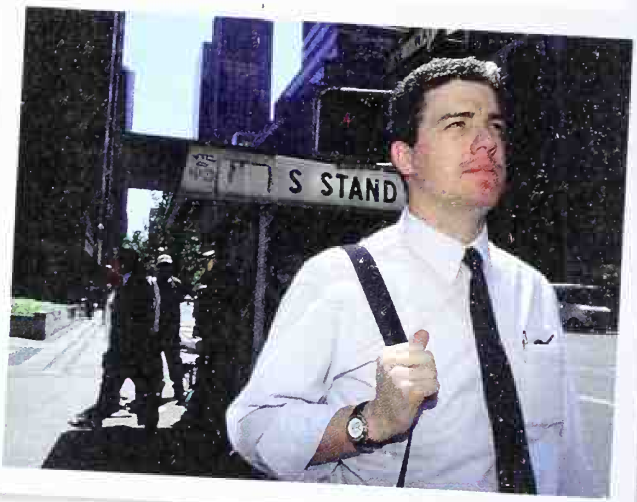


① **WELCOME TO THE WORKING WEEK:** *O'Brien looks for signs of life in an ad agency's disk drive.*



② **TAXI!:** *No cabs in sight, he starts hotfooting it across town.*

DEAD DISKS. FROZEN FILES. WHO YA GONNA CALL?

A day in the life of network triage specialist Mike O'Brien

Michael G. O'Brien is trying to save a life—the life of a 500-megabyte file-server disk drive. It failed yesterday at an ad agency in Midtown Manhattan. Working until 10 last night, O'Brien, his boss, and a colleague tried to master the disaster. They were back at 6 a.m. O'Brien is operating on four hours' sleep and his workshop's air-conditioning is broken. It's 8:45 a.m., and he's trying to download files he needs to test the drive. But for 20 minutes there has been no answer at two bulletin boards that have them. The phone rings: his boss. The client is asking whether the data can be saved....

Welcome to a day in the life of a computer technician. When a PC displays a strange error message or a network crashes, it's people like O'Brien who get the call. They're the ambulance crews, triage doctors, and heart surgeons of data. Without them, networks would blink out like dead bulbs on a Christmas tree. Understandably, it's a job with a future: The U. S. Bureau of Labor Statistics projects that the ranks of data-processing equipment repairers will rise to 120,000 in 2005, from 83,000 in 1992.

O'Brien, 30 and married with a child on the way, ended up in the career by chance. The Queens native studied programming at Bernard M. Baruch College (part of the City University of New York), but couldn't find a programming job after graduation. So he went into repairs. He has spent the seven years since working with Richard C. Nathan, majority partner of Tailored Technologies Co., a computer sales, installation, and maintenance company with six employees and 10 subcontractors. O'Brien, now a partner himself, describes the job as "20% maddening" but it's clear he loves it. "I'm like a detective every day."

Today's case began at 12:30 yester afternoon, when clients at Milton Sa els Advertising Agency Inc. started l ing trouble opening files stored on t L: drive. O'Brien went over immedi ly, got the users to log off, and rep edly ran a Novell Inc. utility prog called VRepair that corrects disk rors by moving data from bad spot good ones. No luck: By the time he started the network, the drive dropped out completely.

DATA PANIC. Well, no great loss, he ured. All the data was automatic copied onto tape every night at 11 right? Surprise. The procedure had worked properly, so the last good b up tape was nearly three months Even so, if the L: drive had conta only programs, it wouldn't have b too serious: You can always get a program. But it turned out that sev people had been storing data on it.

By this point, then, O'Brien is ho that somehow the drive is actually

Calls have been coming in fron

3 DAMAGE CONTROL: *Getting PCs back up and running.*

4 A LULL ON THE SUBWAY: *After lunch, O'Brien heads uptown for a maintenance job.*

5 ELECTRIC SPAGHETTI: *Changing connections on the patch panel of Duke & Co.'s network.*

e flaw is somewhere else. To find
e has carefully transported it to
ed Technologies and attached it
rankenstein"—his name for the
mbered PC sprawling across his
But to complete the simulation of
l agency's network, he needs two
of software for the drive control-
rd. Those programs can be down-
l from two bulletin boards, O'Brien
, but neither answers.
of desperation, O'Brien search-
e of Tailored Technologies' own
lrives for the programs, named
ran and AHA1520. At 9:07 a.m., he
them. "We might be in business
he mutters. Fingers flying over
keyboard and circuit cards, he
es together a facsimile of the Mil-
muels file server—Ethernet, rout-
inition table, and all.
anwhile, a few blocks away at the
Avenue ad agency, Richard Na-
nd Travis Johnson are going from
to desk, getting people running
e the missing server. This turns
be no easy task: Many of the
yees used versions of Windows
ther programs that ran on the L:
There was already a project un-
ay to move those programs onto
dual PCs. Now, the Tailored Tech-
es SWAT team must finish the long-
transition in a few hours. Further
icating matters, many of the PCs
have undersized hard drives, so Nathan has to order and install six new ones. The priority list is on the back of an envelope. One woman—blissfully unaware of the crisis—complains that she's missing her favorite screen saver.

With all the new hardware, this is getting to be a costly job, but Nathan doesn't discuss billing with the agency's chief financial officer, Michael Spano. Spano is having a bad day of his own. Last night, a truck rammed his brand-new sports car. And this system crash has happened at a bad time: The agency is working on end-of-the-month bills. Says Nathan: "I'd never bring up money at a time like this. Bad form."

Back at Tailored Technologies, O'Brien's Bugs Bunny watch reads 9:50 a.m. Calls have been coming in from a midtown law firm where all the computers on the network are frozen and from a U.N. agency with a screwup that sounds like it might be a cabling problem. He has farmed the jobs out to other colleagues.

POSTMORTEM. Now, the moment of truth: Time to try out the malfunctioning L: drive in the full network setup. Oops. Frankenstein "sees" the drive but can't read anything from it. Anything at all. What's more, the drive is making unpleasant grinding and clicking noises. It appears to be a major, irreversible failure. Says the unflappable O'Brien: "When you hear a hard click when you turn it on, that's not good."

The only thing left to do is ship the dead drive to a computer pathology lab that will dismantle it and try to retrieve the data for hundreds or thousands of dollars. (In the end, the agency cancels the job when most of the files turn out to be unrecoverable.) O'Brien unwraps a new drive and starts loading it with files from the March backup tape. Around 11 a.m., he heads to the ad agency to help Nathan and Johnson with the clients. Though this work is less intriguing than sleuthing for faults, it has its own rewards. After he gets media director Jill Elias on line about noon, she responds: "I'm printing? What a guy!"

By the time they knock off for lunch, Tailored Technologies' crew has done a full day's worth of work. A rescue like this would usually cost $10,000 or more, parts included. Because Milton Samuels has a service contract, Nathan predicts the ad agency will have to lay out only about $4,000. There are still loose ends to tie up there this afternoon. First, though, O'Brien rides the subway to Duke & Co., a fast-growing East Side brokerage and investment banking firm, where there are some computers to move around. After the 90-minute commute home, he should sleep well tonight. Unless his beeper goes off.

By Peter Coy in New York

and a New York law firm where all the PCs are frozen

MUTUAL FUNDS

VINIK, VIDI, VICI: A TALK WITH MAGELLAN'S GENERAL

What Jeff Vinik sees in store for high tech, the economy, and Wall Street

Three years ago, Jeffrey N. Vinik took the reins at the gargantuan Fidelity Magellan Fund. Since then, Vinik has handily beaten the Standard & Poor's 500-stock index and left most of his competitors in the dust. So far this year, the fund is up 19%. Those returns, however, don't come without risk. Vinik, 36, makes large bets on stocks and industry groups, which could be costly if he's wrong. Right now, Vinik has 46% of the $43 billion portfolio in technology stocks. BUSINESS WEEK Correspondent Geoffrey Smith spoke with Vinik in his Boston office on June 13.

Q: *Are you still putting money into technology? Which tech stocks do you like?*
A: I'm still extremely bullish on the tech sector. Every day I am buying some technology stocks, maybe ones that haven't run up but have good prospects. Every day I am selling some tech stocks, or trimming some that have had good runs.

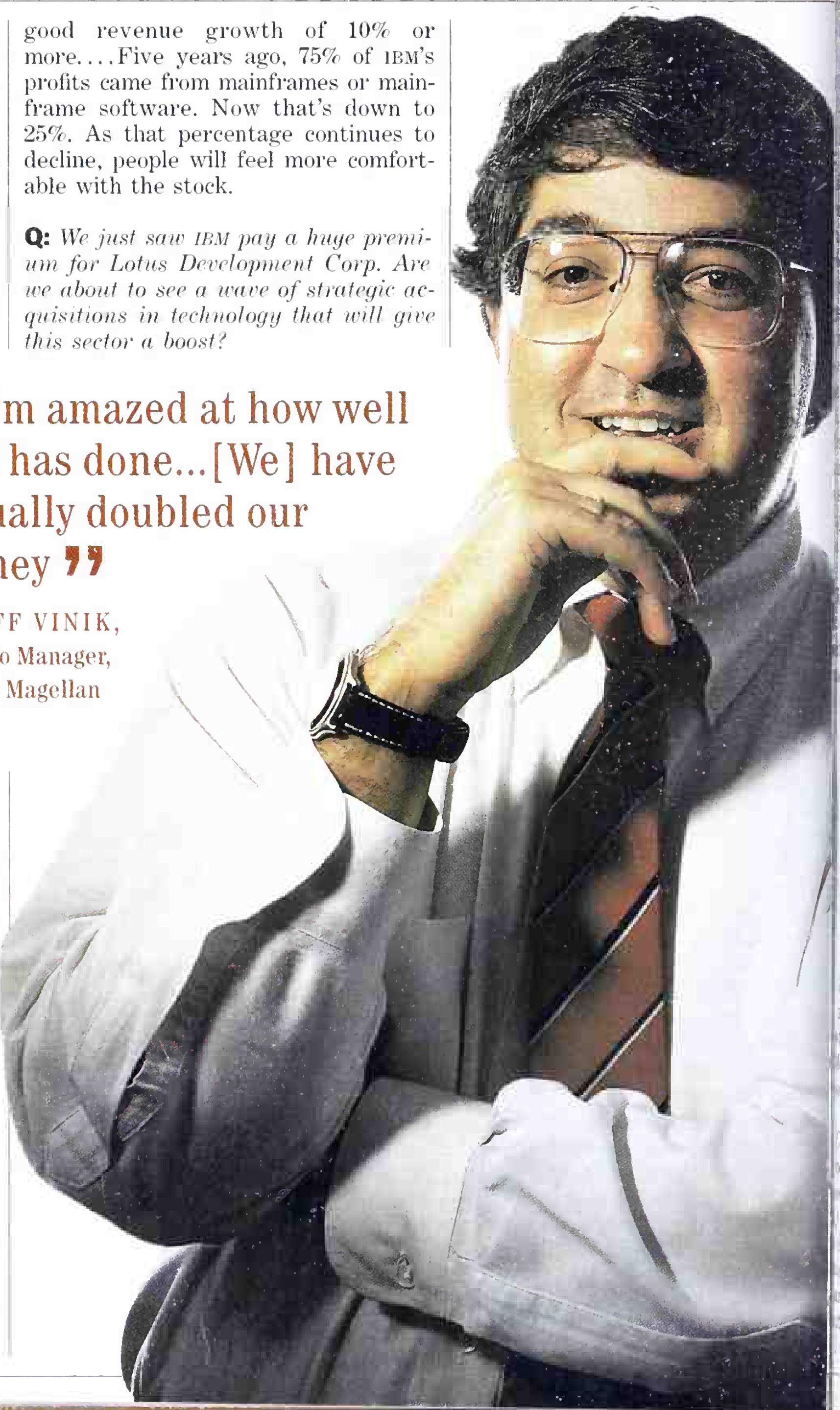
I continue to be very positive on semiconductor companies like Motorola, Intel, and Texas Instruments; software companies like Computer Associates and Oracle; hardware companies like IBM, Digital [Equipment], and Silicon Graphics; and cellular infrastructure companies like L. M. Ericsson.

Q: *Why is IBM your top holding? And are you concerned that a large share of its business is coming from old hardware—mainframes?*
A: I'm amazed at how well IBM has done in the last couple of years. Most of us at Fidelity have virtually doubled our money on the stock over the last two years. But despite its great run, I see a terrific outlook.

I expect IBM to earn over $10 a share this year, perhaps even $11.50 or $12 a share next year, with reasonably good revenue growth of 10% or more.... Five years ago, 75% of IBM's profits came from mainframes or mainframe software. Now that's down to 25%. As that percentage continues to decline, people will feel more comfortable with the stock.

Q: *We just saw IBM pay a huge premium for Lotus Development Corp. Are we about to see a wave of strategic acquisitions in technology that will give this sector a boost?*

> “I'm amazed at how well IBM has done...[We] have virtually doubled our money”
>
> — JEFF VINIK, Portfolio Manager, Fidelity Magellan Fund



RICHARD

lon't know if we are in the midst wave of strategic acquisitions in ology. I can't think of any technol- stocks that I own because I ex- hem to be taken over.

Q: *otorola, one of your top holdings, 't been a barn burner. In fact, Fidelity managers have been sell- e stock. What is your assessment?*
A: s good news, bad news. The bad is that it's gone nowhere for the 8 months. The good news is that arnings have continued to trend rd over that period so that the tion on the company has declined icantly.

ere are a lot of negatives. ompany has had an excess tory of analog phones in the it's had to recall some dig- hones overseas; it hasn't as active in [personal com- ations services] licenses as s. Earnings estimates have cut somewhat due to some se problems.

hink for the next two or quarters, earnings will be e with Wall Street esti- , which potentially sets up to beat the estimates in Right now, you can buy ola at 15 times next year's ngs while two years ago it elling at 25 times earnings. mind, the Motorola fran- is as good as it ever was.

e average diversified equity is running about four per- age points behind the mar- et, but Magellan is one of the few that's ahead. How come?
A: Obviously, a heavy exposure in technology has helped, especially the semiconductor stocks. Many of those stocks are up 30%, 40%, 50% this year. In addition, the cyclical and financial stocks that I own have done very well. Cyclicals like Cat [Caterpillar] and General Motors have had reasonably good moves. And brokerage stocks like Morgan Stanley and Ierrill Lynch have had very good oves.

One of the strongest sectors in the part of the year has been consumer rables (like beverages, foods, and) and you haven't owned those in a long time. Are you beginning ink consumer nondurables?
am not particularly optimistic on itlooks for most of these compa- I still see slowing earnings gains, increasing competition, margin pressure, and high valuations in the stocks.

Q: *What's your scenario for the economy, interest rates, and the market?*
A: I think the economy is going to remain soft for a while and then pick up next year and in 1997. I don't base the fund on predicting the direction of interest rates. But my guess is, given low inflation and a slow economy, long rates can come down some more, and short rates will also come down, which means the Fed probably will ease some over the next several months. I'm definitely bullish over the long term on the stock market, given the very competitive position of American industry and declining budget deficits in Washington and trade deficits overall. Low inflation, good productivity, gaining market share on a worldwide basis—these are all factors that make me very bullish long-term. I think the conditions are in place for a good market environment over the next six to 12 months.

Q: *Given your bullishness on rates, how do you view financial stocks?*
A: I like financial stocks a lot [but] not only because my guess is that rates will come down. I see good fundamentals, good earnings growth, and reasonable valuations because a lot of the stocks have corrected over the last 18 months. I like Merrill Lynch, Morgan Stanley, and Travelers, all selling at 7 to 8 times earnings. There's a real trend in this country toward people investing and saving rather than consuming, and that should drive their earnings for several years. I also like Fannie Mae and Freddie Mac in the financial-services area—good 13% to 15% earnings growth selling at 9 to 10 times earnings. In insurance, I like Equitable Cos. and SunAmerica.

Q: *What other sectors do you like now?*
A: I continue to be very positive on a host of cyclical sectors. The cyclical part of the U.S. economy, which was boom and bust in the 1980s, will be more like boom-boom in the 1990s. I expect continued prosperity from companies like Caterpillar....I'm also bullish on the auto companies, like General Motors, which is gaining share from the Japanese, and is getting its costs under control. I also own railroad stocks like CSX and Conrail. Railroads, at 10 to 11 times earnings, are priced as if this is the peak of the earnings cycle, but their earnings are likely to grow for several more years. Investors don't fully appreciate that.

Q: *Since the U.S. market has moved up so much relative to foreign stocks, are there now opportunities abroad?*
A: It's no accident that U.S. stocks have outperformed most markets around the world both in 1994 and 1995. It reflects the very good fundamentals of this country. While I do own a handful of companies overseas like Ericsson, Nokia, KLM Airlines and Philips, the vast preponderance of the best ideas are here. I also own some Canadian natural gas stocks.

Q: *You have enormous holdings in many companies, some worth over $1 billion. Do you worry about your ability to unwind large positions in a bear market?*
A: I worry about bull markets, bear markets, corrections. I try to envision every possible scenario. If there were a correction in the market or a bear market, I would expect that Magellan would go down more than the S&P 500, given its aggressive position. It has done so in probably every market correction over the last 15 years. Last year we had a correction, and I used the time to improve the positioning of the fund for the next better market environment.

Magellan Under Vinik

	ASSETS	SHAREHOLDERS
JUNE 30, 1992	$20 billion	1.9 million
MAY 31, 1995	$43 billion	3.5 million

TOTAL RETURN
JUNE 30, 1992 TO MAY 31, 1995

MAGELLAN	52.9%
STANDARD & POOR'S 500	42.0%

TEN LARGEST HOLDINGS*

IBM
Intel
General Motors
Motorola
Oracle
Hewlett-Packard
Texas Instruments
CSX
Micron Technology
Columbia/HCA Healthcare

*As of Apr. 30, 1995, latest available

DATA: FIDELITY INVESTMENTS

BONDS

FLOATING A BOND, NOT PASSING THE HAT

Charities are rushing to use tax-exempt finance. Good idea?

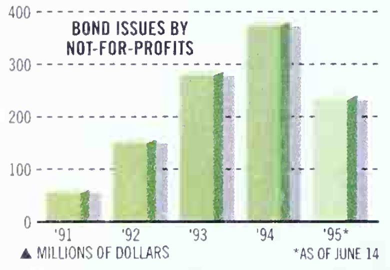
RAZING CAPITAL: *Bonds are building a new Museum of Contemporary Art in Chicago*

In late May, construction equipment began rolling onto the grounds of the Norton Gallery and School of Art, tearing out a street and bulldozing a small building at the museum in tony West Palm Beach, Fla. Housing a collection of Impressionist and 20th-century American art, the Norton is commencing a major expansion. Although it boasts a respected array of philanthropic and corporate board members, it's no more flush with cash than most other cultural institutions these days.

So, to finance the Norton's $16.7 million expansion and renovation, directors organized a fund-raising campaign. But they also turned to a source of funding long tapped by cities, universities, and health-care institutions—tax-exempt bonds. The projected savings on the 30-year deal: a handsome $1.2 million in interest costs over a traditional bank loan. The debt will be serviced with income from a bolstered endowment.

Caught between reduced funding from federal and local governments as well as overburdened private sector sources and the need to spruce up old buildings or construct new ones, a wide array of not-for-profit organizations like the Norton are raising tax-exempt money at a sharp clip (chart). From the Western Washington Fair Assn., which runs a state fair, and the Father Flanagan's Boys' Homes in Nebraska to the Art Institute of Chicago and the Phillips Academy prep school in Massachusetts, financial executives are discovering the special allure of the tax exempt-market: It allows them to shave as much as 300 basis points from their borrowing costs. "It's kind of a gift to public in tutions, a much-needed one right n" says John D. Cartland, who heads not-for-profit practice at Arthur An sen & Co.

NOT-FOR-PROFITS HIT THE MARKET



DATA STANDARD & POOR'S CORP., MOODY'S INVESTORS SERVICE INC., BW

Found money, though, often conta hidden or unexpected costs. Cheap c it has caused some less-than-financia astute institutions to get in over th heads and some bankers warn of f ther problems ahead. "There is an i nite number of causes and a fi amount of donor money," c tions Mark E. McCarthy, sen vice-president at Chicago's Salle National Bank, which provided letters of credit to n profits. "The more people v add debt to the equation, closer you will get to the bre ing point, and the greater risk some will fail."

NUANCES. Most of the bon which are underwritten by s investment banks, are pla with mutual funds, insura companies, and other instituti al buyers. But some small sues are sold to unsophistica retail investors. "You don't w widows and orphans holding to them," says Kenneth Kerzner, managing director First Chicago Capital Mark one of the most active not- profit underwriters. "There's way you can explain the nua es to them."

Nuance, indeed, abounds in scruti ing not-for-profit bonds. The finan performance of many issuers can be v volatile, for instance. And collateral s as art collections is usually off lim Investors thus usually demand that d receive a credit agency rating, insura or letters of credit. "These issues quire special analysis," says Paul C. liams, head of investment strategies research at John Nuveen & Co., a ma tax-exempt investor.

Consider what rating agencies banks look at when assessing the ri of not-for-profits. For museums symphony orchestras, it's everyth from local competition to the comp tion of the board of trustees, which, pinch, might be called upon to rus up more endowment money. Standar Poor's, which rated the Art Institute Chicago's $25.5 million issue in Febru A/A-1, offset its concerns about stream of operating deficits and mou ing debt with the comfort of a $222 lion endowment. Professional organi tions, including such recent issuers the Association of American Medi

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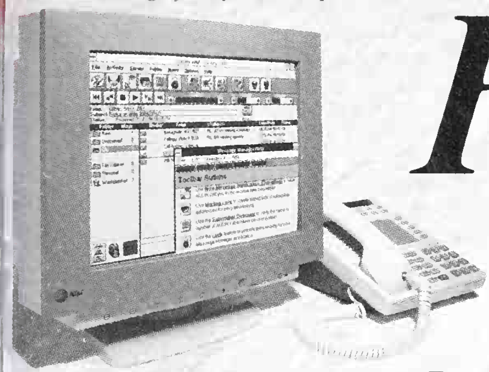

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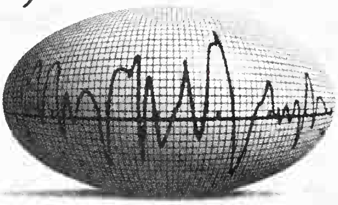

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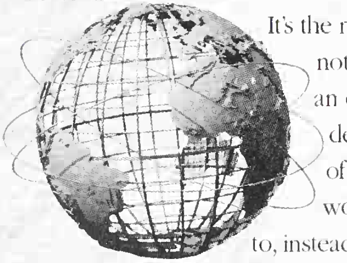

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Colleges, are scrutinized for the stability of their memberships. MBIA Inc., the largest insurer of municipal bonds, which has backed deals from the New York Public Libary and the Choate Rosemary Hall School in Connecticut, won't even consider a bond unless there are unrestricted funds on the balance sheet greater than the total debt level.

The major mistake not-for-profits make is to get "seduced" by cheap financing, as First Chicago's Kerzner puts it, and overbuild. Take the Fernbank Museum of Natural History in Atlanta. Though it lacked an endowment or a permanent collection, it was able to raise $20 million in tax-exempts in 1990 to put up a new building. But it badly overestimated admission revenues. On May 1, Fernbank missed an interest payment of $1.3 million and is now trying to restructure its debt and raise contributions.

SECONDARY EFFECT. The venerable Boston Museum of Fine Art is finding that the interest burden from $33 million in bonds issued in the 1980s for renovation and new construction is compounding the institute's operating problems; it's now five years in the red. "When you issue debt, you have to be very cautious and remember you need a plan to pay it back," notes Thomas W. Fitzgerald, director of finance. The MFA, which had simply hoped to repay the interest out of operating income, is cutting staff and programs.

Fortunately, not-for-profits are finding that shiny new bond-financed buildings beget scads of new contributions. Take Chicago's Museum of Contemporary Art, whose headquarters just off Michigan Avenue was constructed with a $50 million tax-exempt bond issued last year. The new building, five times the size of its old facility, was a big spur toward a $55 million endowment campaign, most of it now pledged, says Kathleen A. Hechinger, finance manager for the project. To pay off the debt, the museum plans to use income from the endowment. Hechinger says the process of planning the bond issue imposed a useful financial discipline on the museum. What about the risks? "I would be concerned if the curators were running the museum, which they aren't," she adds.

For not-for-profits that can hew to such financial discipline, tax-free bonds can be a useful tool to meet mounting budgetary pressures. For those that can't, tax-free bonds could be a bargain with the debt devil.

By Richard A. Melcher in Chicago, with Marcia Mallory in Atlanta and Mark Maremont in Boston

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MERGERS

A NEW GIANT STALKS THE BACK OFFICE

But is First Data big enough to beat back MCI and AT&T?

At first glance, it looks like a field day for antitrust lawyers. On June 13, First Data Corp. agreed to merge with archrival First Financial Management Corp. The two companies are major players in the enormous but little-watched market for transaction services—the authentication, transfer, and recording of electronic payments for merchants and credit-card-issuing banks. The merged entity, which will be known as First Data and will have revenues of more than $4 billion, will dwarf other independent transaction processors (table). "The combination is going to be phenomenal," says Richard K. Weingarten, an analyst at Montgomery Securities. Among independent transaction processors, "there is no one positioned like them. I'm pumped."

DUQUES: *"We're . . . making cash [into] roadkill"*

The Justice Dept. is likely to scrutinize the deal, especially since both companies own large money-transfer operations. First Financial bought Western Union Financial Services Inc. last September—by outbidding First Data and other contenders. And First Data could control more than 30% of the market for processing Visa and MasterCard transactions, according to David Robertson, president of credit-card newsletter *The Nilson Report.*

BUILDING A MONOPOLY?

REVENUES OF SELECTED TRANSACTION PROCESSORS FOR THE PAST 12 MONTHS

	MILLIONS
FIRST DATA*	$4,170
EQUIFAX	1,487
MEGAPHIS	300
SPS TRANSACTOR SVCES.	277
NATIONAL DATA	231
TOTAL SYSTEM SERVICES	200

* Assumes combination of First Data and First Financial Management

DATA: BROADVIEW ASSOCIATES

CROWDED FIELD. In fact, the market for electronic transaction processing is becoming more competitive each day. In the past two years, MCI Communications, AT&T, and IBM have all joined the fray. MCI in April announced the launch of MCI TransAction, a service to handle every piece of business involved in processing an electronic payment, from the moment a customer's card touches an electronic re er to the closing of the sale. And June 6, AT&T cut a deal with Checkf Corp. to handle electronic bill payme over AT&T distribution channels.

The flurry of interest in transact services isn't hard to understand. W the exponential grov of the Internet and acceptance of credit debit cards everywhe from ballparks to stations, electronic c merce is expanding rapid clip, says F Data Chairman and Henry C. (Ric) Duqu

SHOPPING TIPS. W electronic payments count for just 14% the $5.5 trillion in t payments today, he s that proportion expa ing, even as total p ments reach $8.5 tril by 2000. Duques s the combined comp will have only 16% or so of the elect ic-payments market, adding that deal will give him the scale to comp effectively.

First Data is already on track tc fer some nifty new electronic-comm services. It will take over a First nancial deal to provide transaction- cessing services for Microsoft Co new online service, Microsoft Netw First Data has also launched U$av program to give merchants proprie data on their tomers' buying ha so they can marke them more effecti And it is striving shift the market f cash to plastic. "W going to win by n ing cash [into] roa on the Informa Superhighway," Du says.

Sounds good. Bu had better watch for all the traffic.

By Kelley Hollan New York

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BY GENE G. MARCIAL

HAS RON PERELMAN SPOTTED A PEARL?

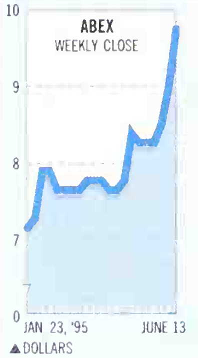
If you're a Ron Perelman fan who wants to get in on one of his stock plays, you may want to ape what some pros are doing: snapping up the shares of Abex (ABE), now at 9¾. This little-known maker of flight- and engine-control systems and hydraulic pumps for aircraft is being swallowed up by Perelman's MacAndrews & Forbes.

PERELMAN: *One security becomes three*

Under an agreement, Abex is merging with two other Perelman businesses: Consolidated Cigar, America's largest stogie maker, and Mafco Worldwide, the leading producer of licorice extract, a flavoring agent used in tobacco and confectionery products. The combined company will be called Mafco Consolidated Group, which will be 80%-owned by Perelman.

As part of the merger arrangement, for each share of Abex, shareholders will receive three securities: one share of Abex' aerospace company, which will be renamed Power Control Technologies and will trade on the Big Board; one quarter of a share of common stock in Mafco Consolidated, also on the Big Board; and one "value support right," which is designed to ensure that within a stated period the combined market value of the package received will be at least $10.

LINKS WITH CIGARS AND LICORICE



DATA: BLOOMBERG FINANCIAL MARKETS

"Even before Perelman is halfway to where he wants to take Mafco, the combined value of the stocks should be twice the current price of Abex," says the head of an investment-and-research boutique in San Francisco who started accumulating Abex shares when it was at 7. Abex has some $200 million in cash, besides the aerospace unit's assets.

This investment pro believes Perelman wants to sell the aerospace division as quickly as possible. He estimates this operation alone is worth "north of 7 a share."

"Buying Abex shares at this point is a smart bet on Perelman," says Stuart Rudick of Mindful Partners in San Francisco, who likes to play Perelman's forays into different stocks. "His strategic moves into Revlon, Coleman, and Marvel Entertainment, to name some of them, have made me big bucks," says Rudick.

Rudick believes Perelman will use Abex as a vehicle to make additional lucrative acquisitions, possibly including a casino in either Atlantic City or Las Vegas.

A ROCKET MAKER SET TO BLAST OFF

For nearly two years, shares of rocket maker Orbital Sciences (ORBI) have been hovering between 16 and 18. But that may be about to change. Joan Lappin, president of Gramercy Capital Management, says: "Orbital's management is doing an excellent job of building value, and one of these days, the stock will explode to the upside." She sees it hitting 30 in 12 months and 50 in 24 months.

What's fueling her optimism? This time it's isn't just the brightening fundamentals. Along with Prudential Securities aerospace analyst Gary Reich, she's convinced Orbital has become buyout bait.

"Orbital is succeeding amazingly well in trying to commercialize space on a shoestring budget," says Lappin. The company builds low-cost rockets, satellites, earth stations, and handheld "global positioning communicators." NASA recently placed a $70 million order for Orbital to build, with Rockwell International's help, a reusable, low-cost launch vehicle.

Lappin thinks Rockwell may try to buy Orbital, at 40 a share. Reich agrees, although he thinks the buyout price could be closer to 50. If Rockwell buys Orbital, Rockwell "would again capture the leadership in space it once had," says Reich. Rockwell was the leading producer of manned space systems, such as Apollo and the Space Shuttle. "It now finds itself in the embarrassing position of having to go to Orbital to build the [low-cost] X-34 shuttle, because NASA feels Orbital has the inside track," says Reic

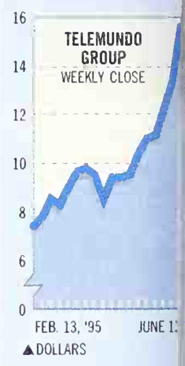
Another possible suitor, according Reich is McDonnell Douglas, which al found a need to team up with Orbit When NASA asked for bids for its ne "Medlite" launch system, he recal McDonnell needed Orbital's skill make bid. Rockwell and McDonnell d clined comment as a matter of polic

SPICY TALK ABOUT TELEMUNDO

A funny thing happened to Telemun Group (TLMD) after it emerged fr 18 months in bankruptcy on Jan. 3: stock, then at 7, shot up to 15⅝ June 13. What's going on?

The cast of characters who are involved in the company may have a lot to do with the impressive climb. Telemundo is a Spanish-language TV network based in Miami that reaches 86% of U.S. Hispanic households. The person who guided Telemundo out of bankruptcy was Leon Black, who a runs Apollo Advisors, a "vulture fu that scoops up depressed shares of d tressed companies. Using Apollo's 1 stake, Black took over as chairman a crafted Telemundo's recovery. It's cl to many pros that Black isn't enthu astic about running a TV network, they reckon he'll rejuvenate Telemu and then sell it.

TWO STAKEHOLDE ARE STOCKING U



DATA: BLOOMBERG FINANCIAL MARK

Another big stakeholder (10%) is thur Goldberg, president and CEO Bally Entertainment, which owns ca nos. He is still buying and some th he will make a run for the compan

Some investors believe Telemun new president and CEO, 37-year- Ronald Hernandez, also wants to the company. He founded and ov Interspan Communications, wh formed KFWD-TV, a Telemundo affil in Dallas-Fort Worth. Hernandez ov about 5% of the stock, and rumors he has been buying more. A New Y hedge-fund manager says Hernan wants to take the company priv Goldberg declined comment. Her dez didn't return calls.

OM BLOCH'S NO. 1 REASON OR LEAVING THE FOLD

H&R Block heir is seeking fulfillment beyond taxes and high tech

LY MAN: *Bloch prefers spending time with his wife and two sons*

ELI REICHMAN

n a chilly Thursday morning last April, Tom Bloch decided to break the news. For 20 years, the 41-year-old scion of H&R Block Inc. centered his life on the tax busi- Twenty years, heck—taxes had al- seemed his destiny. He was a year when his father and uncle, Henry Richard Bloch, founded the compa- hey would build into the world's st tax-preparation service and ulti- ly into a diversified holding compa- ith annual revenues of $1.2 billion. Thomas M., the only one of the ers' seven children with an interest siness, the path to the company's er office had been as straight as a er column.

t three years after taking over as Tom Bloch stepped into his father's with what felt like a confession. "I want to do this anymore," he told y, who, at 72, still serves as chairman. "I want a different kind of fulfillment. I've decided to resign."

For Tom Bloch, the decision ended an agonizing two-year internal debate that had led to a fundamental conviction: He wanted more time with his family and more gratification from his work. In particular, he liked the idea of teaching in an inner-city grade school. For Henry Bloch, it was the end of a dream. In announcing Tom's 1992 ascension as CEO, the elder Bloch had declared: "I have worked for this my entire career." For H&R Block, it marked the first time the company would be run by someone outside the family.

H&R Block today is a very different company from the one Tom Bloch went to work for as a tax preparer in 1976. Once focused solely on taxes, over the years H&R Block had diversified into such areas as temporary personnel, legal clinics, and online services (table, page 128).

Indeed, if Tom Bloch is at a crossroads, so is H&R Block. While the tax-preparation business generates lots of cash, the company's most aggressive growth comes from CompuServe Inc., the granddaddy of online services, purchased in 1980 for $23 million. But CompuServe, which has 1.9 million subscribers worldwide, is facing increasing competition from other online services, including Prodigy, America Online—which has overtaken CompuServe in subscribers—and, soon, Microsoft Network. Meanwhile, Block's core business is under assault. For only the second time in the company's publicly traded history, tax earnings this year are expected to fall, owing to a new Internal Revenue Service rule that lets fewer people qualify for Bloch's profitable refund-anticipation loans.

"VERY GOOD JOB." On the news of Tom's resignation, effective Aug. 31, H&R Bloch's stock price shot up 10%, to 46¼. Alexander Paris, an analyst with Barrington Research Associates Inc., says investors hoped "that a technology manager would come in and more aggressively manage CompuServe, which is the key to success." The stock later settled in the mid-30s, presumably because of the anticipated poor year for the tax unit.

Still, by most accounts, Tom has delivered a strong, if not exceptional, performance. He "has done a very good job and has kept the company as successful as it had always been," according to Jonathan Braatz, an analyst with Fahnestock & Co. Since Tom became president in 1989, earnings have doubled, from $100.2 million to $200.5 million last year. Much of that growth came from the electronic-filing and Rapid Refund programs he pioneered.

There's no evidence Tom's resignation was anything but voluntary, and he's part of the committee searching for a new CEO. Despite analysts' interest in technology, company insiders want to see a wide net cast. Says William Andersen, senior vice-president and chief financial officer: "I'd like to know what kind of person I'm going to be working for, and I'm not sure that a technology person is that critical."

In the weeks since he told his dad he was leaving, Tom has grown more definite about his next career. He has been consulting teachers and administrators about everything from earning a teaching certificate to problems in public schools. Recently, he sat in on classes at Westport High School, in a poor, rough section of Kansas City.

Inner-city schools are hungry for qualified teachers, Bloch notes. "I've had a life full of opportunity, and I'd like to make a difference in the lives of people who haven't." He is fortunate, he adds, "to be able to do something where the reward is not financial." At the current stock price, Tom's 0.34% stake in H&R Block is worth some $13 million.

TOO TAXING. Bloch also quit, he says, because "my family is the most important thing in the world to me, but that wasn't reflected in the way I was living my life." Even during evenings and weekends with his wife, Mary, and two sons, aged 7 and 10, he had difficulty focusing. "Part of me was [illegible] the office."

[illegible] attributes [illegible] disen[illegible] lack of [illegible] other ex[illegible] second of four siblings, he grew up in the affluent Kansas City suburb of Shawnee Mission. Henry Bloch wasted little time introducing his sons, Tom and Robert L. Bloch, to the business world. But while Bob—who now works for the family's charitable foundation—showed little interest, Tom relished skipping school to travel with his dad on business. As a teenager, he could knowledgeably discuss taxes and other financial matters. His soft-spoken demeanor belies a competitive nature that helped him graduate as valedictorian from Shawnee Mission East High School and as an honors student from Claremont Men's College in Claremont, Calif.

Tom joined H&R Block right after college as a tax preparer in a Kansas City office. By 27, he was president of the tax business. He held several other executive positions before becoming president in 1989 and CEO in 1992. The pressure to succeed, he says, was unremitting, partly because of others' expectations and partly because of his fear of failure and of embarrassing his father: "I always wanted to prove to myself and others that I was earning my success at the company." Henry Bloch says Tom was too hard on himself. "People don't inherit [positions] in our company," he says. "Tom was a good leader, and I'm sorry he won't be at the helm anymore."

Henry Bloch admits he has trouble relating to Tom's desire to leave his $764,000-a-year post. "For his sake, I'm happy. But it's not something that I would do." About Tom's alienation and stress, his father seems genuinely surprised. "I always thought Tom was happy doing what he was doing," he laments. "It is disappointing and sad that he wasn't." But he acknowledges that he was concerned by a basic difference in their personalities. Tom, he s "took his worries home with him. I c take mine home with me." Then ag Henry was bound to be surprised. F long time, Tom says, he feigned satis tion rather than disappoint his fath

NO GOLF. As time passed, Tom fo himself meeting each professional c lenge more mechanically and less sionately. The further he rose, the w it got. "Being the CEO of a holding pany like this puts you fairly far the action," he says. "My most satisf job was as a tax preparer, helping ple with that annual burden and, h fully, saving them money by findi deduction they didn't make, and wa ing that person leave happy about decision to come to H&R Block. was great."

Over the past two years, Tom begun consciously putting his family fore his work. He has given up Some weekends, he and his sons groceries at a food bank. At other ti the family unwinds at their new f house a few miles from Kansas Cit

Nonetheless, he's now growing i tient to get his successor in place move on, even as others try to to grips with his departure. Recen longtime employee pulled Tom asid expressed shock at his resignation. always thought there were three tainties in life," the employee told "Death, taxes, and that a Bloch w run this company." Henry Bloch, fo part, hasn't quite given up on his coming back to the family busines would like that to happen," he s "He could prepare taxes if that's he wants to do."

By Ron Stodghill
Kansas City

BUILDING BLOCK

1946 In Kansas City, Mo., Henry and Richard Bloch open United Business. Services include free tax preparation.

1955 After IRS stops offering individual tax-preparation service, Bloch brothers focus on former sideline, reincorporate as H&R Block.

1962 75,000 shares sold in public offering.

1978 Acquires Personnel Pool of America, a temporary services company.

1980 Acquires CompuServe; also 80% of Hyatt Legal Services, a chain of law offices (sold in 1987).

1985 Buys Path Management, a seminar business (sold in 1990).

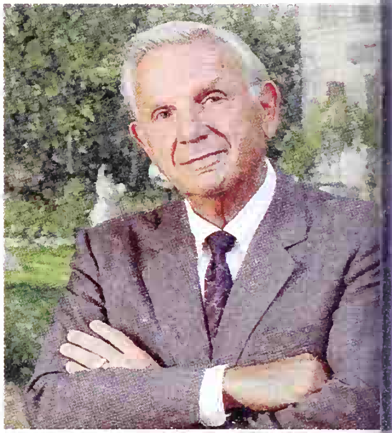
1989 Tom Bloch succeeds Henry Bloch as president.

1991 Personnel Pool of America buys Interim Systems.

1992 Tom Bloch succeeds Henry Bloch as CEO.

1994 Company launches first ad campaign in 20 years that doesn't feature Henry Bloch. Jettisons temporary services unit in IPO to focus on electronic and computer services.

APRIL, 1995 Tom Bloch announces resignation effective Aug. 31, 1995.

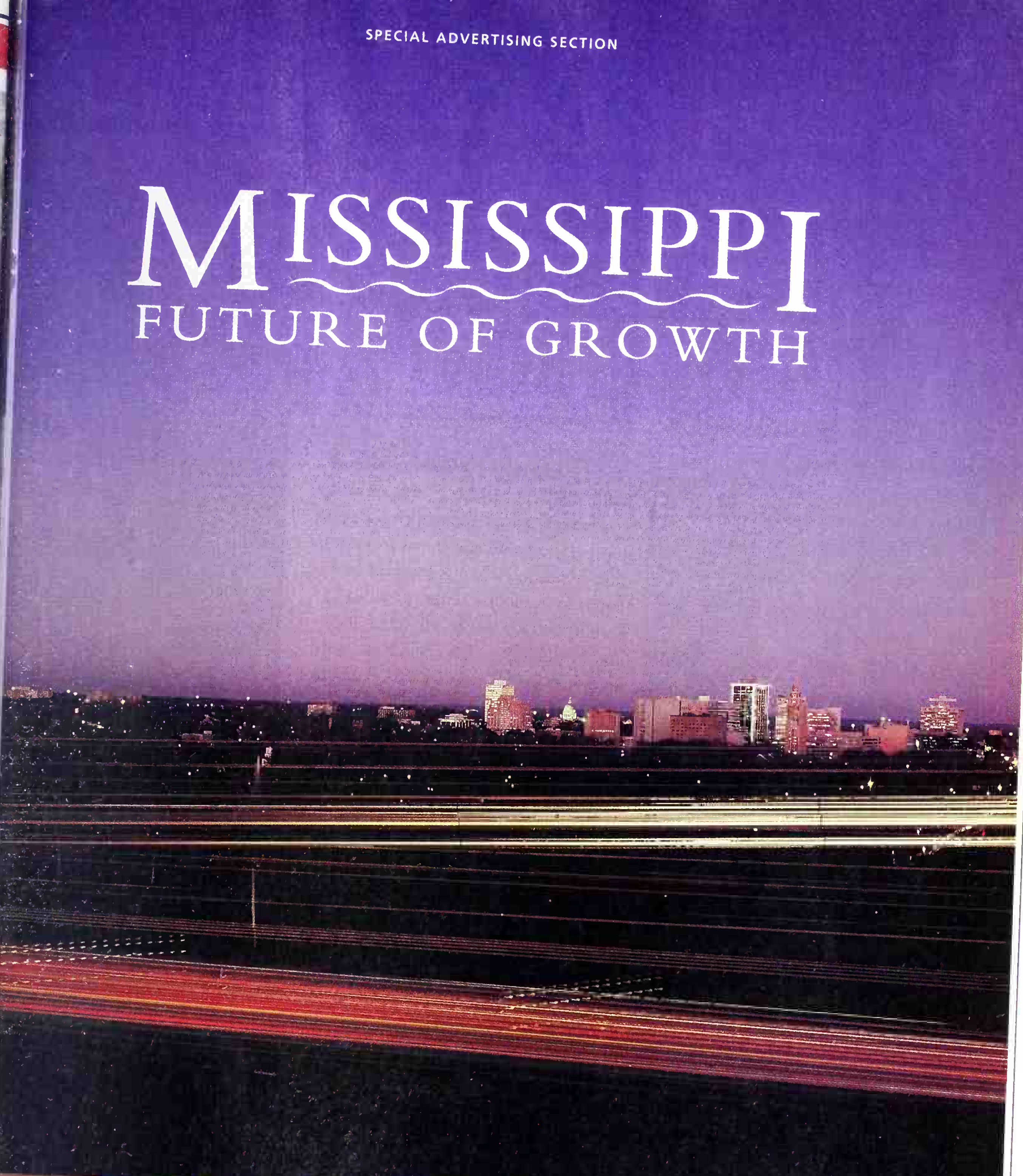


GENERATION GAP

Says the elder Bloch: "I alw thought Tom was happy"

MISSISSIPPI

FUTURE OF GROWTH



MISSISSIPPI
FUTURE OF GROWTH

EFFICIENT TRANSPORTATION NETWORK

Mississippi is within a day's drive of 55% of the U.S. population, an important feature for companies that manufacture or distribute consumer goods. Mississippi's efficient transportation system includes the Mississippi River, two deep-water ports, the Tennessee-Tombigbee Waterway, airports, railroads, and interstate highways. The state is the gateway to all major U.S., Canadian, Central American, Asian, and European markets.

The state has five U.S. Customs ports of entry and three Foreign Trade Zones, which facilitate low-duty or duty-free products. Nearly 3,000 miles of railroad track crisscross the state and connect it with the national railway network. More than 30 national truck carriers operate here, including Mississippi-headquartered KLLM Transport Services, Inc., the nation's largest temperature controlled carrier, and Miller Transport, the nation's sixth largest bulk carrier.

These and other carriers find that interstates and a four-lane highway system provide convenient and reliable access to major markets, making the cost of getting products to market among the lowest in the nation.

Two recent developments: Weyerhaeuser is moving its 100-employee box manufacturing operation from Memphis to a DeSoto County industrial neighborhood that also includes Mazda, and, Thomas & Betts Corp. is building a 1 million square foot distribution center in Mississippi to replace a smaller warehouse.

Mississippi is emerging from the shadows of economic obscurity with an intensity rich in both symbolism and reality.

The players in this new adventure are not fictional characters sprung from the imaginations of such best-selling Mississippi writers as John Grisham, Willie Morris, Eudora Welty, or William Faulkner.

They are real – 1.2 million Mississippi workers with real jobs, earning real money, in a state whose economy has been rejuvenated by an interesting mix of manufacturing, services, and entertainment: particularly casino gaming which was legalized in 1992 and has grown to a $1.5 billion business with 30 gaming facilities currently operating along the Mississippi River and Gulf Coast.

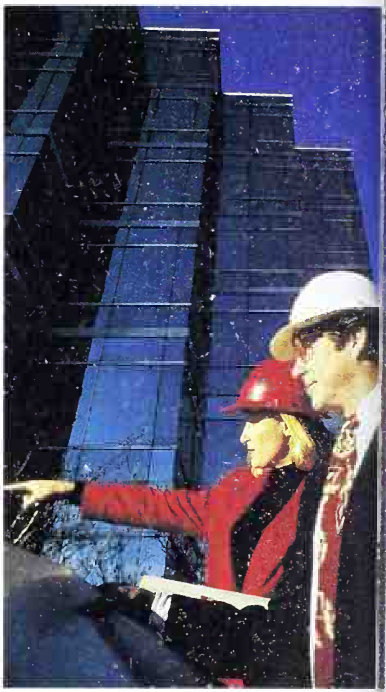
ECONOMIC RENAISSANCE

In survey after survey, Mississippi's economic renaissance has been well-documented:

- In 1993, US News & World Report named Mississippi number one in economic recovery from the recession. Last year, the state's economy was again named one of the 10 strongest in the nation.
- Whirlpool Corp. – which operates a manufacturing plant in the north Mississippi town of Oxford – found the state's business climate tops among 23 states with home appliance manufacturing operations.

Last year, 651 facilities expanded or launched first-time operations in Mississippi, creating an estimated 44,300 new jobs at a capital investment of nearly $2.8 billion.

Business expansions were across the board – from furniture, apparel, and industrial machinery to food, wood products, chemicals and plastics, to



New construction projects are a su
sign of ecomomic growth in Missis

telecommunications and electroni
distribution facilities, according to
Mississippi Department of Econo
and Community Development.

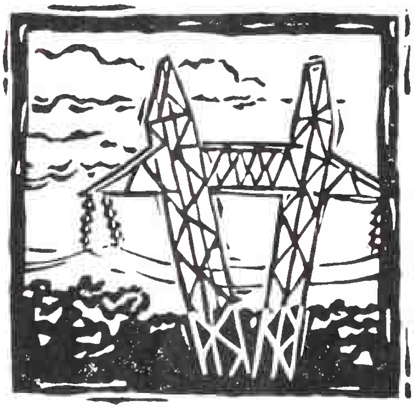
"Mississippi is on the right cour
continued economic growth and
increased opportunity, all leading
better standard of living for Missis
sippians," says Jimmy Heidel, DEC
executive director.

A major "find" – touted as one o
top 10 economic development
announcements in the country in
1994 – was the highly-advanced $
million Sunbeam-Oster Co. manu
turing and distribution plant, whi
under construction near the south
Mississippi city of Hattiesburg.

In competition with more than
other cities across America, Hattie
burg was chosen partly because o
special incentives including $65 m
lion in tax exemptions, site impr
ments, and employee training fun

Entice your employees

Convince
your
accountant



According to U.S. News and World Report, Mississippi is leading the nation in economic recovery. Grant Thornton has consistently ranked us among the top ten manufacturing states in the country. Recent Whirlpool reports name Mississippi one of the top ten places to locate new plants. The world has discovered our strong workforce, pro-business environment, world class distribution capabilities, reliable supply of low-cost power, and our quality of life. Isn't it time you did? Call us at *1-800-528-5196* for information on expanding or relocating your business here.

Mississippi Power

MISSISSIPPI
FUTURE OF GROWTH

PIONEERING SPIRIT TOUTED IN TELECOMMUNICATIONS

In Mississippi, a cadre of pioneers moves confidently into the still-emerging, ultra high-tech field of telecommunications.

LDDS WorldCom, launched by a small group of Mississippi investors, has employed an aggressive acquisition strategy and built a highly-advanced digital network to become the fourth largest long distance carrier in the country. The company acquired WilTel Network Services, Inc., in January 1995, after having merged with IDB Communications Group in 1994.

Mississippi's concentration of telecommunications firms extends onto the very leading edge of the industry – wireless paging. MobileComm, the Jackson, Mississippi based paging subsidiary of BellSouth, is a strong example: It is the second largest of the national paging carriers, serving with its affiliates about 1.4 million subscribers.

And, SkyTel, a true pioneer in the two-way wireless paging field and a subsidiary of Mobile Telecommunication Technologies Corp. (Mtel), has laid claim to a series of "firsts:" first to introduce wireless messaging services on a nationwide basis, first to introduce regional messaging services, first to introduce alpha-numeric messaging services across the U.S. and first to offer up-to-the-minute information from the ticker and the Dow wire through its SkyQuote service.

The Mississippi telecommunications connection includes state-of-the-art companies, investors, employees, and suppliers, resulting in a rich diversity of people who eagerly embrace new technology.

GOOD COMPANY

Such new plants are further enhanced by expansions of companies already doing business in Mississippi:

- Tecumseh Products Corp. is investing $100 million in its refrigerator compressor plant;
- Levi Strauss & Co. is engaged in a $59 million expansion of its state-of-the-art distribution facility;
- Kimberly-Clark Corp. will expand its distribution plant with about $50 million in new investments;
- Toro Company, citing increased consumer demand for its two-cycle lawn mowers, is reopening a plant;
- Poultry processor Sanderson Farms, Inc. opened new processing lines;
- Action Industries, Inc., one of the world's largest manufacturers of upholstered furniture, announced expansions to its huge facility in the northeast Mississippi city of Tupelo.
- And, Ceco Building Systems, founded in Columbus, in 1947, has grown to national prominence in the manufacture of metal buildings. Ceco President J. Terrell Landrum says Mississippi's "building climate is conducive to growth and expansion." Ceco buildings are marketed through a national network of general contractors who furnish turnkey construction projects to meet a variety of building needs. "Obviously, Mississippi has suited us well," says Landrum.

WHY MISSISSIPPI? WHY NOW?

World-class companies are discovering Mississippi's strategic location – right in the heart of the U.S. growth market.

Says Bryan Foods' George Bryan: "It's a great geographic location for us to ship fresh, perishable products and reach the stores and the consumer, which is very important."

But its geographic location is onl one of Mississippi's attributes. It als has a business climate that undersc its pro-business government. Mississippi has one of the lowest rates of union activity. Last year, just 17 uni elections were held in Mississippi, t lowest number in a decade. Unions lost 11.

Many companies coming into Mississippi for the first time find a generous package of at least 20 business incentives that can ease th cost of relocating, including:

- The Mississippi Rural Economic Development Assistance Program allows corporate income tax credits toward debt retirement on plants and equipment financed by Industrial Development Bonds;
- Five-year state income tax credit of $500 to $2,000 for each new j created by new businesses;

State-of-the-art fiber optics put Mississ telecommunications industry on the leading edge of the information age

- Five-year state income tax credit $500 for each new job created b companies transferring regional national headquarters to Mississip
- State income tax credit equal to 25% of basic skills training and j re-training expenses for employe

02: MEETING IN DENVER MOVED TO
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Mtel is proud to call Jackson, Mississippi, home.

l features pagers by Motorola

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MISSISSIPPI
FUTURE OF GROWTH

and 25% of child-care expenses;

- Sales tax exemptions for qualified purchasers of raw materials, processing chemicals, packaging, machinery, and construction materials;
- Rates well below national averages for unemployment and workers compensation insurance.

PUSHING FOR BALANCE

Pushing for a common sense balance between economic development and environmental protection, the 1995 legislature passed an environmental self-evaluation privilege which allows industries to conduct voluntary self-audits to assess environmental compliance. With the signature of Governor Kirk Fordice, Mississippi became only the 11th state in the country to pass environmental self-evaluation privilege legislation and only the 4th state to enact provisions mandating a substantial reduction in penalties – if a penalty is to be levied at all – for voluntary self-disclosure.

Even steam-powered paddlewheelers draw inspiration from the legendary waters of the Mississippi River

The offering of such a wide range of business incentives is not unusual in Mississippi, which in 1936 pioneered a radical appeal to industrial prospects called Balance Agriculture with Industry (BAWI).

That same attitude – nearly 60 ye later–has evolved into an attractive option for companies looking for a escape from the pollution and crin of other places.

LITTON EXAMPLE OF OPEN ARMS POLICY

This open arms policy toward busi helped convince Litton Industries, multi-billion dollar Beverly Hills, Calif.-based company, to find a ho in Mississippi. In 1961, Litton boug a small shipyard which had been in business since 1938 in the Mississip Coast town of Pascagoula and beg to build ships for the U.S. Navy.

Today, Ingalls Shipbuilding divisi of Litton Industries is the state's la private employer with more than 13,000 workers in an 800-acre stat of-the-art production facility.

"The worldwide reputation achi by Litton's Ingalls Shipbuilding div sion here can be directly attributed three major elements," says Ingalls President Jerry St. Pé. "First, the exceptional work ethic of the peo of South Mississippi; second, an ed cational system that sends us poten employees well prepared to acquir the on-site job training skills and certifications necessary in the con struction of modern warships; and third, the outstanding business clin developed over the years among s and local government leaders thro their support of measures designed enhance the expansion and growt business and industry in Mississip

SOPHISTICATED TELECOMMUNICATIONS

Litton, an early soldier in Mississip economic renaissance, has been jo

MAZDA FINDS CENTRAL LOCATION

One major automotive company, Mazda, reviewed 40 potential sites before settling on a 600,000 square foot auto parts distribution facility in north Mississippi's DeSoto County, just south of Memphis. The $20 million facility is expected to be up and running by early 1996.

Mazda North America President Yoji Toyama said projected population growth in the southeast part of the U.S. prompted Mazda to re-evaluate how it will service customers in the area. Mazda's Mississippi facility will replace two leased distribution facilities in Michigan in the company's efforts to cut costs and become more efficient and competitive.

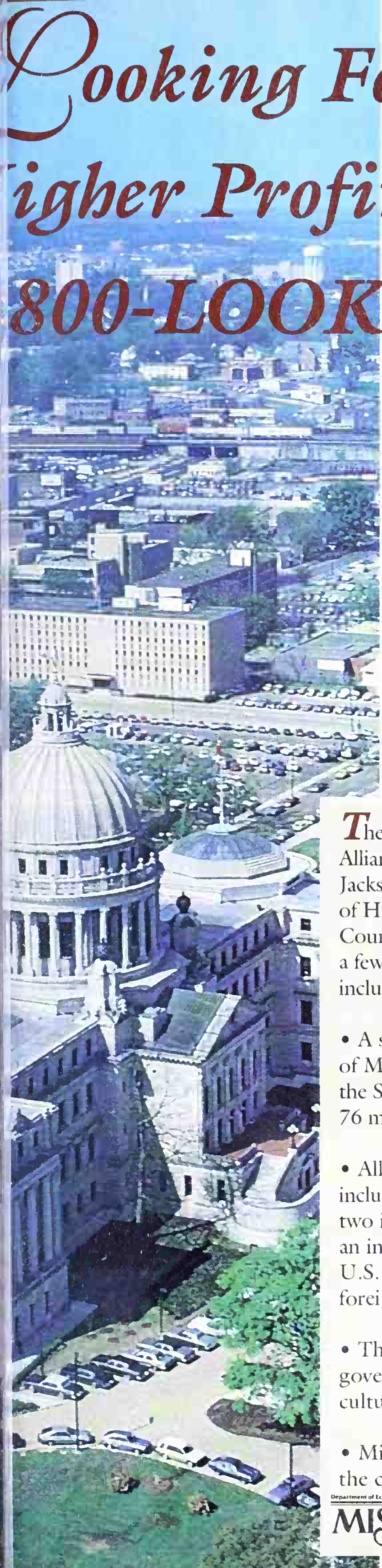
"When we looked at supplier and customer locations, and total distribution costs, we realized that locating our parts distribution operations to a central location such as DeSoto County made sense," Toyama said.

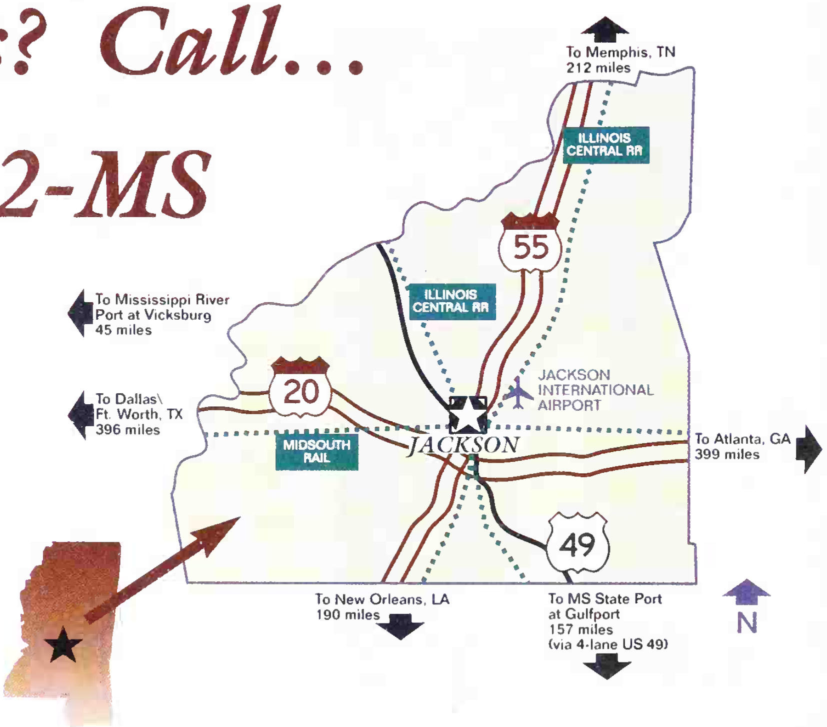
The automotive industry demands tight distribution deadlines and the site's proximity to a multitude of transportation – rail, air, and major interstate arteries – were all helpful.

"Many factors go into a decision like this – construction, transportation, physical location, distribution to customers," he said. "But the major factor in locating the facility here was the people." Toyama said the local labor pool was ideal for Mazda's needs, including the capability of handling at least 200 trucks per day.

Mazda was also able to take advantage of innovative state and local partnerships that are helping to promote an abundance of economic growth in Mississippi.

Looking For Directions To Higher Profits? Call... 800-LOOK-2-MS





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ILLINOIS CENTRAL RR
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- A strategic location near the center of Mississippi, at the "Crossroads of the South", and within 500 miles of 76 metropolitan areas;

- All modes of transportation, including two intersecting interstates, two intersecting main railroads, and an international airport which is a U.S. Customs port of entry and foreign-trade zone;

- The business, financial, medical, governmental, educational, and cultural center for Mississippi; and

- Mississippi's capital city, **Jackson**, the central city of the Metro Area.

Department of Economic and Community Development
MISSISSIPPI

This project is partially funded through a grant by the Mississippi Department of Economic and Community Development

For more information or help on any expansion\relocation matter, please contact the Metro Economic Development Alliance at P. 0. Box 3318, Jackson, MS 39207-3318 or call **1-800-LOOK-2-MS** (1-800-566-5267).

We **look** forward to hearing from you.

Power of innovation helps in the quest to balance economy and environment

by a bevy of first-rate companies headquartered in Mississippi and competing on the world stage in a still emerging field – telecommunications. They share the same sort of pioneering spirit that moved Mississippi in the past, but that's as close as they get to the past because telecommunications – Mississippi style – is about as futuristic and high tech as high tech gets.

One company, LDDS WorldCom, reported total 1994 revenues of more than $2.2 billion, up 51% from 1993.

Many are surprised to discover that some giants of global telecommunications originated and remain based in Mississippi. MobileComm, the paging subsidiary of BellSouth, serves about 1.4 million subscribers in the U.S., and the Caribbean. Mobile Telecommunication Technologies Corp. (Mtel) was recently cited as one of the 75 fastest growing companies in Ameri Sales of its wireless paging unit, SkyTel, are growing at the rate of more than 40% per year.

The telecommunications industry in Mississippi rates as one of the m sophisticated in the world.

FURNITURE INDUSTRY GROWING

Forests cover more than half of Mississippi's land mass, gracing the state with an abundance of wood resources. Are these precious resour dwindling? Hardly.

A recent U.S. Forest Service surve indicated that forest resources are a ually increasing at a rate of 184.2 m lion cubic feet annually. That could because companies like Internation Paper, which has invested heavily i Mississippi, plant three seedlings fo every mature tree harvested.

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We have no crowds. No congestion. And no long commutes to work. We have more trees than cars. Oak trees. Pine trees. Palm trees. Magnolias, too. There are natural woodlands, lots of deer, mighty rivers, tranquil lakes and beaches on the Gulf of Mexico. There are brick homes, wooden homes and yes, stucco, too. Some homes have porches. You'll probably want one. To relax. To ponder how you could have such a big house, with such a big yard, for such small money. We have museums. Concerts. We have libraries. And bookstores, too. With writers like William Faulkner and John Grisham, it's sort of a must. It might even surprise you that the American host city for the very "big deal" International Ballet Competition is in Mississippi. Also, we bet we have more fairs, festivals and community events than any other state in America. We do so much talking and getting together that you occasionally have to take time out and rest.

but heck, we'd like to get our money's worth.

But what's it like for business and industry here? Well, it's sort of like the housing thing, you get a lot more for your money. The cost of doing business is lower. Lower construction costs. Lower land costs. And a lot of pro-business incentives like job credits, training credits and this new program we call the RED Act. (We'd have to buy another ad to talk about the Rural Economic Development Act, so if you want to learn more, just call.)

Yes, there's a lot to say about Mississippi. Like how the economy is booming (ranked tops in the South and number eight in the nation), and how housing starts are up 35 percent over last year, and how strong the state is financially. But the most important thing to remember if you're considering moving your business and family to our state is this: We'd like you to come.

(800) 340-3323

MOVE IT TO

MISSISSIPPI

MISSISSIPPI
FUTURE OF GROWTH

In Mississippi classrooms, the drive to excel means starting early with computers

Wood-related industries such as northeast Mississippi's rapidly-growing furniture industry find a special home. The mild climate contributes heavily to an annual growth rate of trees that is twice the national average.

POLYMER INSTITUTE PARTNERS WITH BUSINESS

In the chemicals and plastics category, some 22,000 production workers average about $10 per hour in a business growing by 20% per year, so fast that in 1993 Mississippi opened a Polymer Institute affiliated with the University of Southern Mississippi. The programs in engineering and chemistry have already been recognized as among the nation's best.

"We work with companies as partnerships in developing new innovations, new technologies," says Dr. Robert Lochhead, who heads the institute. The state is home to companies like GE Plastics, Armstrong, Hercules, DuPont, Kerr-McGee, Mississippi Chemical, Calgon Carbon, and Chevron.

Chevron operates a large, efficient refinery in the industrial city of Pascagoula and has been investing—and making—money in Mississippi for three decades. Its manager, Graham Somerville, cites the low cost of production, a central market location, efficient market transportation, and access to raw materials as ideal.

COMPREHENSIVE EDUCATION STARTS EARLY

In Mississippi's advanced school districts, the lessons start early.

In 1994, the Community College Network, a comprehensive statewide teaching and learning system, was activated to connect 18 community colleges with the Cooperative Extension Service at Mississippi State University and the University of Mississippi Medical Center. The system gives all locations total interactive audio and video transmission, and one teacher can teach simultaneously to students in 20 classrooms.

Mississippi's most progressive public school district, the Tupelo Public School District, has developed an aggressive approach using technology to prepare students for the next century.

"Schools of the 21st Century" seek to develop a "world class" kindergarten through grade 12 curriculum. By the 11th grade, students are studying integrated computer assisted design (supporting geometry), advanced electronics (supporting physics), biomedical technology, and audio-visual production and design (supporting the arts).

Superintendent Mike Walters believes technology is a tool for learning and teaching. Says Walters: "Serious science students cannot be relegated to the unreal, drab world of the textbook disconnected from the technologies of science."

Having become actively engaged in the project, Tupelo area businesses stand to benefit from its results.

HEALTHY BUSINESS ATTITUDE

Such is the attitude that underpins Mississippi's remarkable progress on the economic development front. It is a new Mississippi that has captured the attention of companies looking for more efficient production at less cost—usually with a substantial gain in quality of life for employees.

James L. (Buddy) Bynum is a well-known Mississippi journalist who writes extensively on business, politics, and other current affairs. Design by Parham Santana, Inc

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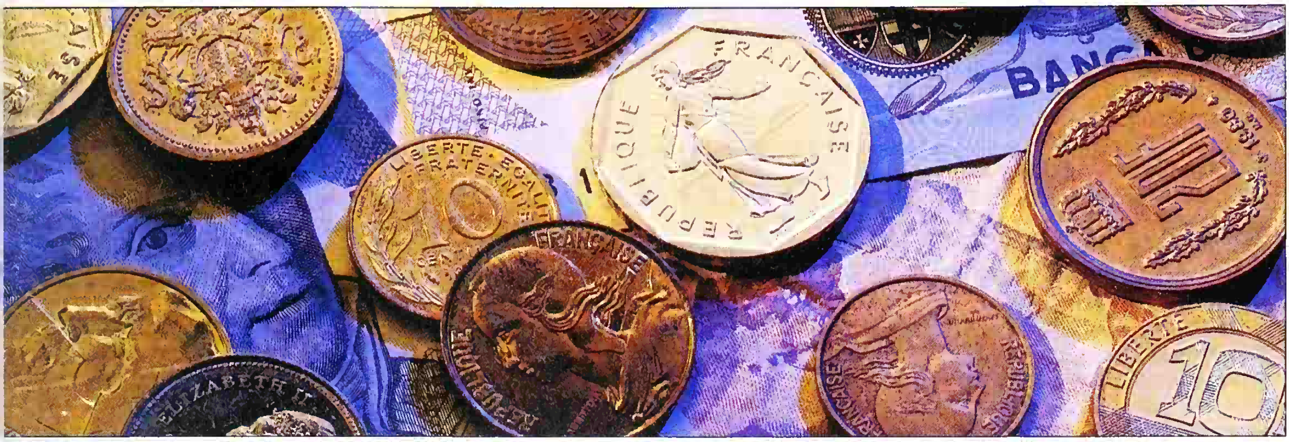
o Above and Beyond Your Bottom Line



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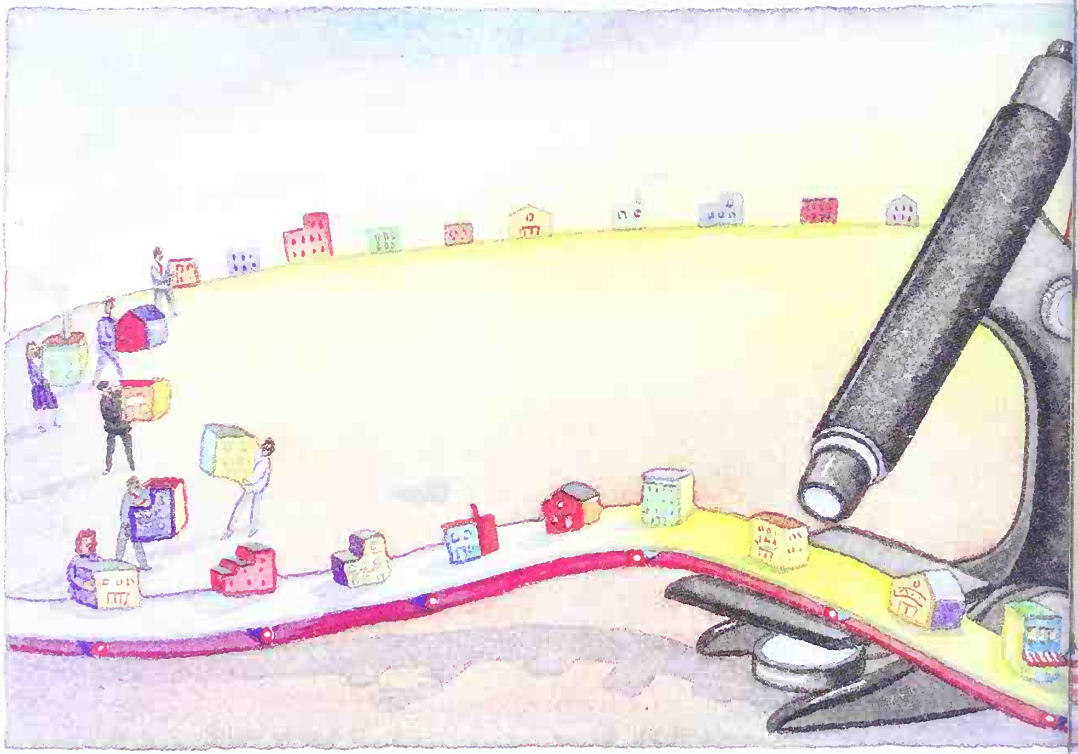
SCOPING OUT STOCKS 'BELOW THE RADAR SCREEN'



Less is definitely more, according to mutual funds that are concentrating in microcap shares. While only a handful of funds can actually be called microcap, the ranks of those that invest predominantly in companies with a median market capitalization of $200 million or less have doubled, to 40, in the past three years. That's still a drop in the bucket of more than 3,000 stock funds. But in time, you're likely to see more of these wee funds, which are exploiting the uncharted territory at the bottom of the equity bin.

Microcap stocks add diversity and higher returns to a portfolio. Under-researched, they represent a less efficient and potentially more profitable market than even the traditional small-cap class, which falls in the $200 to $700 million range. Of course, with greater reward comes greater risk and higher trading costs. That's why mutual funds may be the best way to ride little stocks to bigger gains.

BIG BANG. Most microcap companies escape the scrutiny of Wall Street analysts because it's not economical to follow them. That leaves plenty of funds for diligent stock-pickers. "The world has adopted small-cap as a real genre," says Charles Royce, manager of Royce Micro-Cap. "What's remaining is below the radar screen, and it's a large area for opportunity." About 3,000 tiny companies fit the definition of microcap, compared with 420 large-cap stocks—those with a minimum market cap of $2.4 billion.

Another draw of micros is that the smaller you go, the heftier your return over time. "Historically, this is the group that has given you the biggest bang for the buck," says Claudia Mott, quantitative analyst at Prudential Securities Inc. Over the past 20 years, the smallest companies have produced average annual returns of 21% for those with a market cap of $60 million or less, vs. 17% for small-cap stocks and 13% for large-cap, according to Merrill Lynch senior quantitative analyst Satya Pradhuman.

Most microcap funds take a value approach, buying on dips in a company's stock price, because "when you get this small, it's a dig-them-up, buy-and-hold style," says Morningstar analyst Laura Lallos. One reason Montgomery Asset Management Limited Partnership opened a
crocap fund is that w
Montgomery Growth mar
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Montgomery Micro Cap F
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but may soon close again

It's hard to know how

INVESTING Most microcaps escape the scrutiny of Wall Street analysts, leaving plenty of room for diligent stock-pickers

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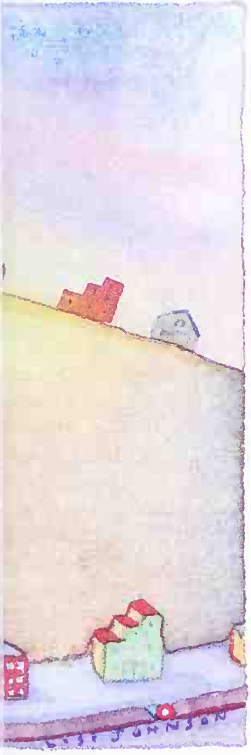

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a share in late 1992,
from its peak of $50.
the stock sells for $16.
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it can do at its peak
rough," he says, "you
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ach the peak of the cycle." The other strategies are buying companies that are creating new businesses or have potential breakthrough products. For example, Isabelle owns $39 million Alkermes, a Cambridge (Mass.) biotech company that is developing products to penetrate the blood-brain barrier, which screens out molecules that could treat illnesses arising in the brain.

DFA U.S. 9-10 Small Company takes a different approach from Pioneer. Essentially a passive index fund, DFA generated an average annual yield of 11% over the past 10 years. The fund buys companies that fall into the smallest one-tenth of stocks listed on the New York Stock Exchange—figuring in over-the-counter and American Stock Echange issues. DFA holds 2,000 stocks at a time and updates its list each quarter. It requires a minimum investment of $100,000. Like most index funds, DFA usually fares well when small companies in general do well, but other funds will "beat us when small companies do poorly," says manager Rex Sinquefield.

An emphasis not on size but bargain-hunting puts Franklin Balance Sheet Investment in the micro category. "We buy below book value, and frequently that leads us to small companies," says co-manager Bill Lippman. Like other microcap managers, his five-year annualized 16% return is partly due to the fact that micros are often bought out. He paid $21 a share—$16 below book value—for Trico Products, a $119 million maker of windshield wipers. A year later, the stock was inching up when the company was sold for $85 a share. A $250 million cigarmaker, Colbro, was another success. Spain's state-run tobacco company bought a 49% stake a month ago, causing the stock to jump 50%.

Still, there are plenty of losers at the bottom of the heap. "The biggest problem is that most companies which are very small deserve to be," says Montgomery's Honour. "They're often family-run and have only one good product." He searches for companies that are willing and able to grow.

UPWARD DRIFT. Another problem is that because the stocks are illiquid, trading costs can run as high as 3% to 5%. That's because smaller companies have wider bid-ask spreads, says Prudential's Mott. Most fund managers deal with illiquidity by buying very small stakes in many companies. But you'll want to know how a fund handles trading expenses to avoid wiping out the microcap premium on returns.

DFA keeps costs down by using a basic buy-and-hold strategy. Royce Micro-Cap relies on an elaborate infrastructure of electronic markets to deal "between the spreads," which "would be impossible for the individual investor to do," says Royce. Preston Athey, who manages the T. Rowe Price Small Cap Value Investment fund, controls costs with a low annual turnover of about 20%.

If you're interested in buying a microcap fund for diversification, you'll also want to know how strictly the fund adheres to size limitations. DFA, T. Rowe Price, Royce, and Heartland insist on selling companies that have grown beyond the funds' size parameters. But you may want to monitor funds such as Franklin and Pioneer, which hold some larger-cap companies, because small-cap funds tend to drift up in size as their successful picks grow. "You have to actively manage to make sure the small stock fund stays small," says Minneapolis financial planner Ross Levin.

The stabilizing effect of diversifying into many asset classes means you can put 5% to 10% of your assets into micros without increasing your risk over strictly large-cap holdings, says Merrill's Pradhuman. Although it may not sound like much, he says, "from a long-term investment perspective, that's powerful."

You may have to act fast to get into a microcap fund. Such funds can't accommodate vast amounts of assets and still invest in lilliputian companies. A top performer, Heartland Value, which has boasted returns of 16% over 10 years, is closing its doors on July 1, after growing to $800 million in assets. And Montgomery Micro Cap, which reopened on June 1, plans to close when assets hit $200 million. Still, as money continues returning to U.S. stocks from overseas and as fund companies try to generate more business, microcaps may continue to proliferate. Hopefully, there won't be so many that managers can't still pluck up plenty of bargains with tweezers. *Pam Black*

Mining for Microcaps

	TOTAL RETURN YTD*	TOTAL RETURN 3-YEAR	MEDIAN MARKET CAP MILLIONS	LOAD	EXPENSE RATIO
DFA U.S. 9-10 SMALL COMPANY	10.70	16.0	$ 82	NONE	0.65
FRANKLIN BALANCE SHEET INVESTMENT	13.50	18.5	173	1.5%	1.19
HEARTLAND VALUE	9.90	16.9	91	NONE	0.97
PIONEER CAPITAL GROWTH A	12.90	18.7	148	5.75%	1.26
ROYCE MICRO-CAP	5.71	16.9	110	NONE	1.99

* Year-to-date

DATA: MORNINGSTAR INC

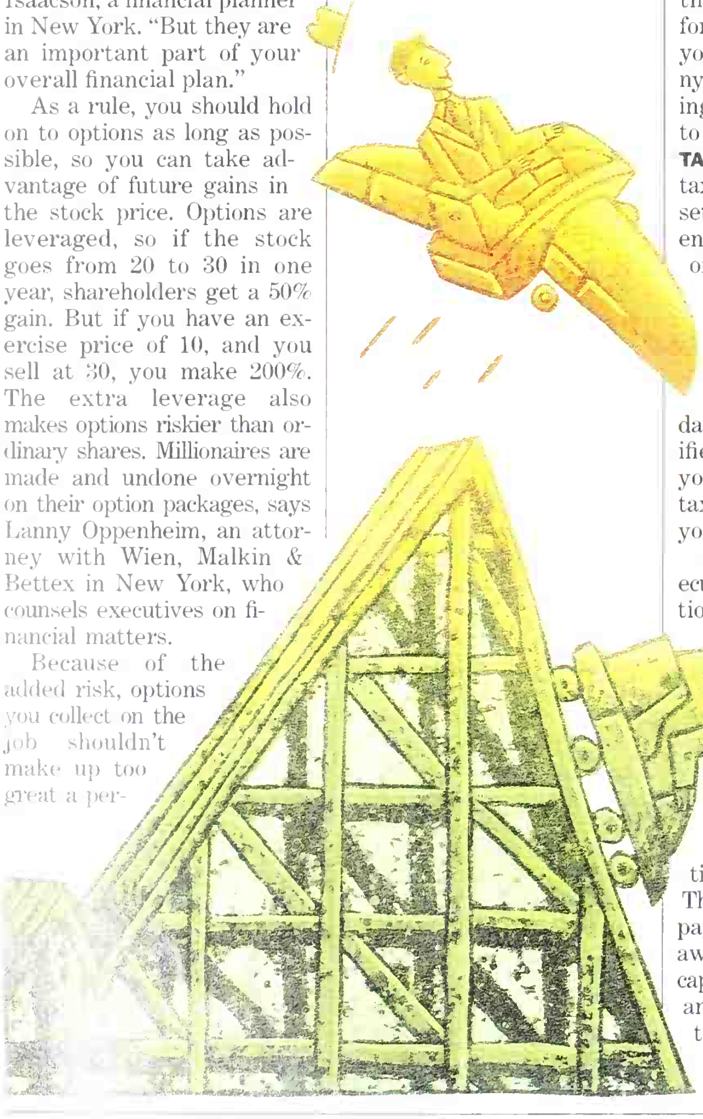
SMART MONEY

WHAT ARE YOUR OPTIONS ON STOCK OPTIONS?

If you are lucky enough to receive stock options as part of your pay package—and luckier still to be watching their market price hit new highs—you may be wondering if it's time to cash in. It just may be. But before you rush to your broker, take a few moments to, well, consider your options. "People think of stock options as found money," says Joel Isaacson, a financial planner in New York. "But they are an important part of your overall financial plan."

As a rule, you should hold on to options as long as possible, so you can take advantage of future gains in the stock price. Options are leveraged, so if the stock goes from 20 to 30 in one year, shareholders get a 50% gain. But if you have an exercise price of 10, and you sell at 30, you make 200%. The extra leverage also makes options riskier than ordinary shares. Millionaires are made and undone overnight on their option packages, says Lanny Oppenheim, an attorney with Wien, Malkin & Bettex in New York, who counsels executives on financial matters.

Because of the added risk, options you collect on the job shouldn't make up too great a percentage of your assets. Generally, you should have no more than 40% of your assets in your company's stock, including options, common shares, and 401(k) holdings, says Jane King, president of Fairfield Financial in Wellesley, Mass. If you exceed the limit, pare back your options and diversify into other sectors. Even if your portfolio is essentially well-rounded, you may want to lock in profits if you have a substantial gain on your options.



You can hold on to options for too long. A common plan is for companies to issue executives options that expire in 10 years but may be exercised in 25% installments over four years. If you ignore them until the expiration date, you could be forced into exercising options when the company is at a trough in the business cycle and its stock price is low. The same could happen if you leave the company or are fired, since you get only a short window until you have to exercise. When you have only three years left before the option expires, or if you plan to leave the company in a few years, start looking for the best opportunity to act.

TAX FACTS. Also, consider the tax ramifications. Companies set up their programs differently. Most choose between offering incentive stock options (ISOs), which have certain restrictions but usually aren't taxed on the spread between the exercise price and the market price at the date of exercise, and nonqualified options, which require you to pay ordinary income tax on the spread as soon as you convert.

For tax reasons, some executives with nonqualified options look for periods when the stock pulls back temporarily to exercise, says Robert Gabele, president of CDA/Investnet Technologies Inc., a Fort Lauderdale (Fla.) firm that analyzes stock activity of corporate insiders. That way, they don't have to pay as much in tax right away and can benefit from capital-gains treatment on the anticipated rise in price if they hold the stock for a year. This strategy is especially good with high-dividend stocks. That way, get the added income w you hold the shares. should also think about e cising nonqualifieds ove few years to avoid b pushed into a higher marg tax rate. With ISOs, there built-in incentive to hold shares for a year after exercise: That way, when sell, you only have to pay capital-gains tax. But w out: Exercising ISOs subject you to the alte tive-minimum tax.

Most people exercise sell options for reasons have nothing to do with versifying, reducing risk alleviating taxes. They ply want to buy a new or fund a child's educa notes Oppenheim. If work at a company w the CEO frowns on se management selling s you may want to con your options but hold stock. If you are an ins always check with you house official who mon Securities & Exchange mission reporting req ments before selling. Co nies often give little guid on managing options— they want you to own stock, says King. So it to you to figure out your best options. *Amey*

When It's Time to Exercise

- When your company's stock represents more than 40% of you total portfolio
- If you expect to leave the company within three years, and the stock price seems at a peak
- If you could use the extra income from the stock's dividend
- If exercising all your options a once will push you into a higher tax bracket or the AMT
- If you hold nonqualified optio and the stock falls, allowing you to save on taxes

DATA: LANNY OPPENHEIM, ESQ.; JOEL ISAACSON, CPA; JANE KING,

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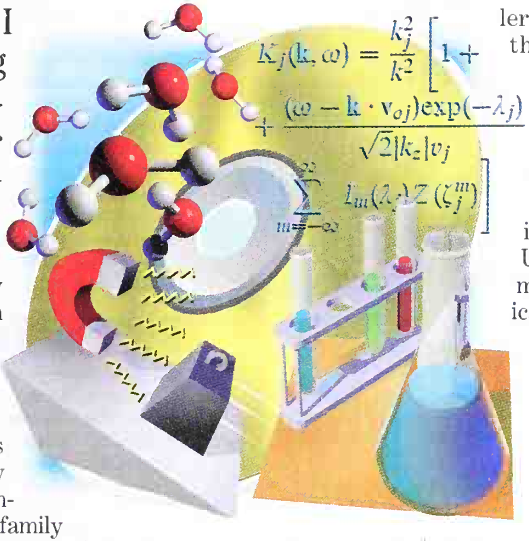
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ke a real science experiment, you start with a hunch, gleaned from the newspaper or video interviews with witnesses and experts, do a bit of reading on the subject, and gather and analyze the evidence. It takes thought, planning, and perhaps a gas chromatograph. Good thing they threw one in.

SOFTWARE

In Mystery of the Exploding Lawnmowers, I used the gas chromatograph to analyze the air in the lawn's sprinkler system. There I found thiol, which the program's encyclopedia told me was a smelly chemical added to natural gas to alert the human nose to leaks. A quick check of the gas company's schematic told me more natural gas was going into the neighborhood than the nine houses were using. So as the mower went over a sprinkler head, the heat from the engine would ignite the leaking gas. Mystery solved. (You're on your own for levels two through six.)

Almost as enticing is Widget Workshop. Using a library of mathematical, mechanical, and electrical and electronic parts, you can build your own inventions and create your own widgets to solve problems. The program also includes its own puzzles to solve. But if it's puzzles you want, a better bet is Sierra On-Line's Incredible Machine 2 ($50). It's less educational but has the same idea: You use mechanical and electric devices to construct a Rube Goldberg-like apparatus to turn on a toaster or sink an 8-ball.

There are lots of anatomy programs on the market. For older kids, I think the best is A.D.A.M.: The Inside Story. It's built around a model originally designed for medical students and reminds you of those glassine pages in textbooks that systematically dissect a human body by layers as you turn the pages. An animated storybook has Adam and Eve answering common questions, such as how a cut heals and why a bee sting hurts. Parents can control the optional fig leaves.

Also from A.D.A.M. Software is a delightful CD-ROM, Nine Month Miracle ($40). It uses the same anatomical illustrations, but features an animated question-and-answer section for teens and adults on pregnancy, a storybook for 3- to-9-year-olds called *Emily's New Sister*, and games that teach, for example, rudimentary genetics.

Another new anatomy program, Virtual Body from IVI Publishing, is a bargain at $20. It's adapted from the Time-Life Science and Nature book series, with added audio and video. Similarly, Dorling-Kindersly's Eyewitness Encyclopedia of Science ($50) has the look and feel of an elegant book. But neither title has enough interactivity to engage a teenager for long. And you must work through lots of screens to get information.

ACTION PICTURES. For the junior astronomy buff, Red Shift, a two-year-old CD-ROM, is still by far the most complete program of its kind. You can visit the past, going back 15,000 years to replay animations of eclipses, for example. My only hesitation about recommending it: A new version is scheduled to come out this fall, which will have sound, animated tutorials, and more video.

By and large, these are rich, powerful programs that go well beyond the "look it up" approach of earlier educational CD-ROMS. One warning: The latest titles usually require a computer with eight megabytes of RAM. But the best are every bit as compelling as the shoot-'em-up video games that teenagers have traditionally preferred. Even better, they exercise the mind instead of the thumbs. *Larry Armstrong*

oftware For Scientific Minds

'UBLISHER	STREET PRICE	DESCRIPTION
NCE SLEUTHS, 1 *discovery*	$35	Solve clever, complex mysteries using scientific methods and tools
.M.: THE DE STORY *.M. Software*	40	Explore the human body with sophisticated anatomical charts developed for med students
SHIFT *s*	55	Navigate the heavens with photos, astronomical charts, and movies
iET WORKSHOP *s*	28	Learn physics and math by building systems to solve problems

DATA: EGGHEAD SOFTWARE, BUSINESS WEEK

WORTH NOTING

■ **BUSINESS LOANS.** Heads of growing small businesses can now call 800 972-2504 for information on the Small Business Administration's fixed-asset economic-development-loan program, known as SBA 504.

■ **CAR TROUBLE.** To avoid the worst, automobile owners should check out *Tips On . . . Car Repair*, published by the Council of Better Business Bureaus. Call 703 276-0100 to order the $2 pamphlet.

JAMES GARY

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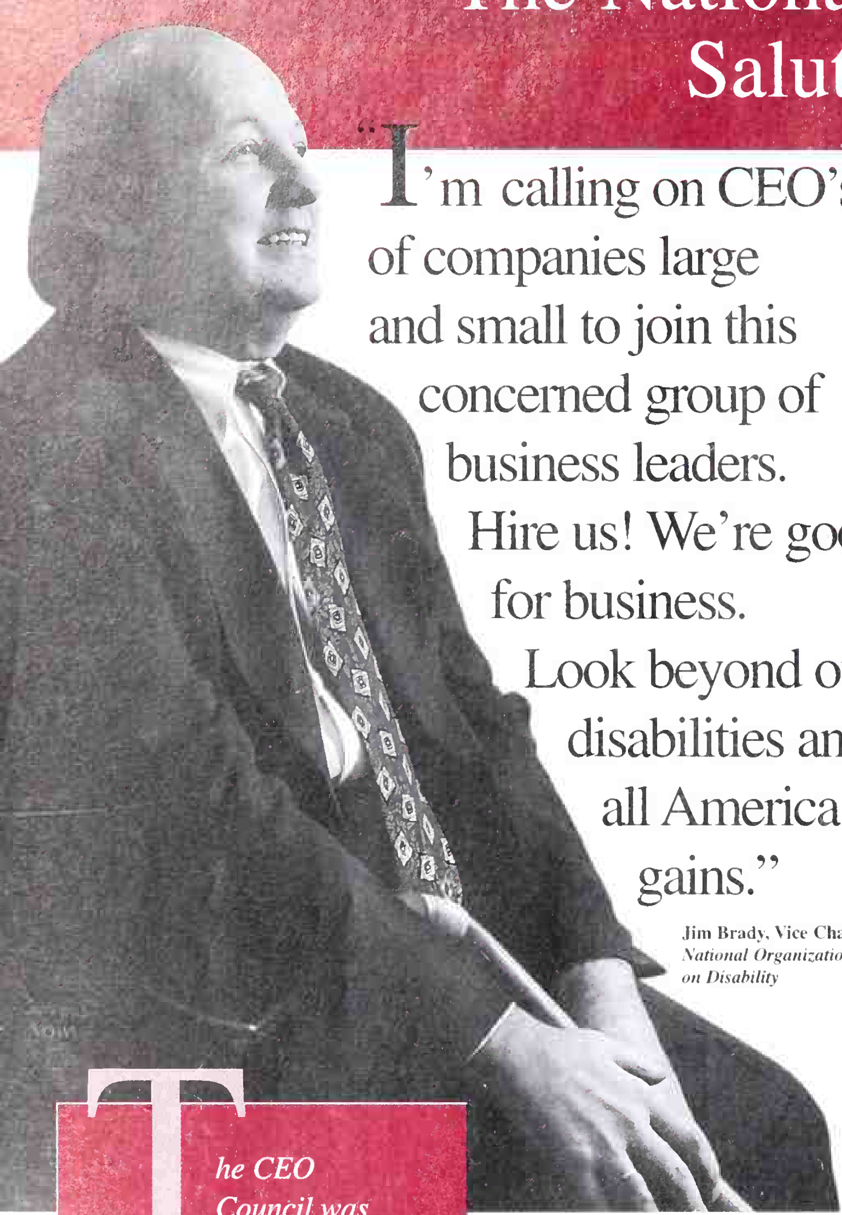

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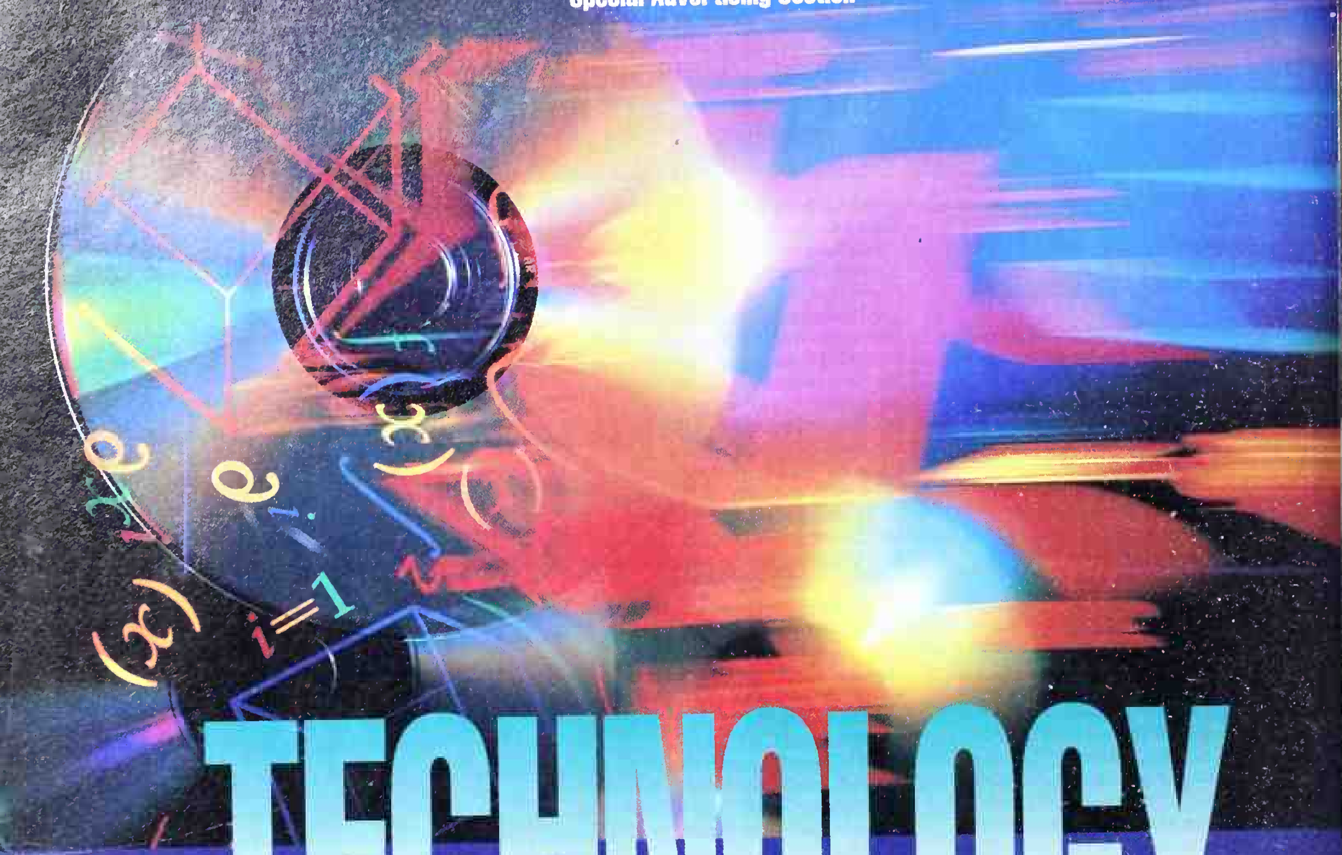

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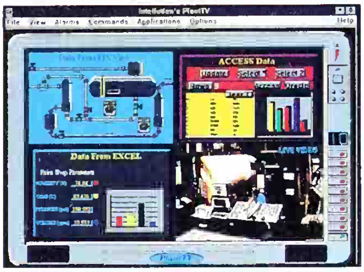

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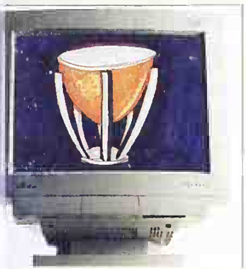

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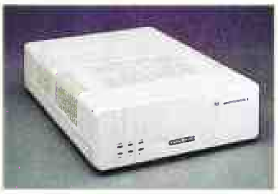

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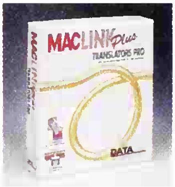

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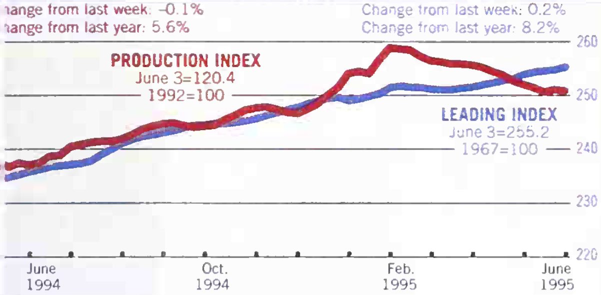
usiness Week Index

ODUCTION AND LEADING INDEXES



idexes are 4-week moving averages

production index was little changed during the week ended June 3. re calculation of the four-week moving average, the index fell to 120.3, 121.5. For the month of May, the index came in at 120.1, down from l's 121.3.

leading index rose for the latest week. The unaveraged index increased to .9, from 254.6 in the previous week. For May, the index rose to 255, 253.1 in April.

oduction index copyright 1995 by The McGraw-Hill Companies BW leading index copyright 1995 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (6/10) thous. of net tons	1,924	1,925#	1.0
AUTOS (6/10) units	137,524	95,344r#	–4.3
TRUCKS (6/10) units	114,526	78,719r#	–4.2
ELECTRIC POWER (6/10) millions of kilowatt-hrs.	64,146	58,336#	3.2
CRUDE-OIL REFINING (6/10) thous. of bbl./day	14,618	14,536#	2.1
COAL (6/3) thous. of net tons	18,037#	19,157	–3.7
PAPERBOARD (6/3) thous. of tons	931.1#	946.2r	5.3
PAPER (6/3) thous. of tons	849.0#	823.0r	3.3
LUMBER (6/3) millions of ft.	345.0#	415.0	–14.3
RAIL FREIGHT (6/3) billions of ton-miles	21.3#	23.6	–0.5

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (6/9) S&P 500	532.91	530.75	16.3
PORATE BOND YIELD, Aaa (6/9)	7.28%	7.33%	–7.3
USTRIAL MATERIALS PRICES (6/9)	113.5	114.1	NA*
INESS FAILURES (6/2)	NA	NA	NA
L ESTATE LOANS (5/31) billions	$481.3	$477.7	11.8
IEY SUPPLY, M2 (5/29) billions	$3,631.3	$3,624.4r	1.6
IAL CLAIMS, UNEMPLOYMENT (5/27) thous.	379	380	5.9

rces: Center for International Business Cycle Research (CIBCR), Standard & 's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures rge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ness failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (6/14) $/troy oz.	387.750	385.900	1.2
STEEL SCRAP (6/13) #1 heavy, $/ton	140.50	141.50	26.0
COPPER (6/10) ¢/lb.	137.3	136.8	23.7
ALUMINUM (6/10) ¢/lb.	85.0	87.0	31.8
COTTON (6/10) strict low middling 1-1/16 in., ¢/lb.	107.80	108.86	39.0
OIL (6/13) $/bbl.	18.88	19.14	–4.9

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (6/13)	5.97%	5.96%	4.21%
IMERCIAL PAPER (6/14) 3-month	5.93	5.87	4.53
TIFICATES OF DEPOSIT (6/14) 3-month	5.90	5.86	4.46
ED MORTGAGE (6/9) 30-year	7.75	7.89	8.45
USTABLE MORTGAGE (6/9) one-year	5.81	5.95	5.44
ME (6/14)	9.00	9.00	7.25

rces: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (6/14)	84.32	84.40	103.55
GERMAN MARK (6/14)	1.40	1.41	1.64
BRITISH POUND (6/14)	1.61	1.59	1.52
FRENCH FRANC (6/14)	4.91	4.95	5.58
ITALIAN LIRA (6/14)	1640.5	1638.5	1606.4
CANADIAN DOLLAR (6/14)	1.38	1.38	1.39
MEXICAN PESO (6/14)[3]	6.175	6.085	3.369

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

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data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense pment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

SING STARTS

day, June 20, 8:30 a.m. ▶ Housing s likely stood at an annual rate of 1.23 on in May, a bit less than their 1.24 on pace in April, according to the an forecast of economists surveyed by International, one of the McGraw-Hill The drop is suggested by the decline nstruction jobs and hours worked in Because of the recent fall in mortgage , housing starts may rebound in com- nonths.

RNATIONAL TRADE

nesday, June 21, 8:30 a.m. ▶ The for- trade deficit for goods and services narrowed slightly in April, to $9 billion, down from $9.1 billion in March. The MMS survey expects little change in either exports or imports. In March, exports rose 5%, to hit a record $65.3 billion, but imports also jumped, by 4.3%, to set a high of $74.5 billion. The trade deficit could have worsened in April, however: Japan has already reported that its trade surplus with the U.S. widened by 3% for the month. The April report will also include revisions to historical trade data.

FEDERAL BUDGET

Wednesday, June 21 ▶ The federal government is likely to report a deficit of $37.5 billion in May, wider than the $32.1 billion of May, 1994. In April, Washington posted a record surplus of $49.7 billion. The deficit for fiscal 1995, which began last October, is on track to total far less than last year's $203 billion. In fact, the deficit could slip to about $165 billion, the smallest budget deficit in six years.

DURABLE GOODS ORDERS

Friday, June 23, 8:30 a.m. ▶ New orders taken by durable-goods manufacturers probably rose a small 0.2% in May, forecasts the MMS report. If so, that would be the first increase since January. Orders in April fell a steep 4%, led by declining motor-vehicle demand. The backlog of unfilled orders probably fell by about 0.4% in May, the same drop as in April.

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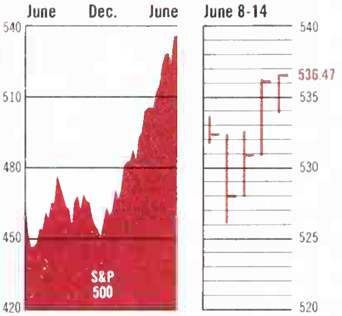
ıvestment Figures of the Week

ENTARY

n news continued to tug at
ıncial markets. On June 13,
climbed in the belief that
ere swinging downward. The
benchmark 30-year Treas-
ıll from 6.7% to 6.55%, on
ıngth of a report that retail
ıse less than expected in
ocks of financial-services
ıies were boosted by the
te news. The markets were
ly flat on June 14. The dol-
however, after the Bundes-
ecided not to cut German
rates.

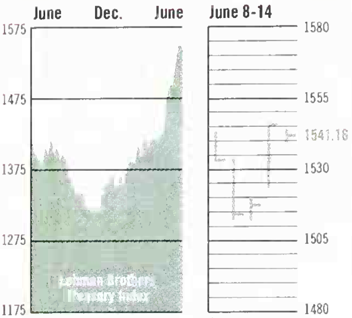
STOCKS



52-week change
+16.5%

1-week change
+0.6%

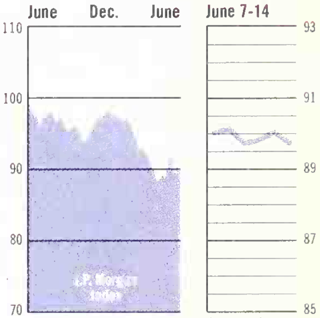
BONDS



52-week change
+9.1%

1-week change
0.0%

THE DOLLAR



52-week change
-9.8%

1-week change
-0.3%

ıKET ANALYSIS

TOCKS	Latest	% change Week	52-week
NES INDUSTRIALS	4491.1	0.7	18.5
E COMPANIES (S&P MidCap Index)	194.1	0.8	13.3
COMPANIES (Russell 2000)	278.9	1.5	11.0
MPANIES (Russell 3000)	305.3	0.7	15.2

GN STOCKS	Latest	% change (local currency) Week	52-week
I (FINANCIAL TIMES 100)	3339.8	-0.9	9.7
NIKKEI INDEX)	14,660.5	-6.5	-31.1
O (TSE COMPOSITE)	4494.3	0.4	7.9

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.61%	5.76%	4.21%
30-YEAR TREASURY BOND YIELD	6.57%	6.55%	7.40%
S&P 500 DIVIDEND YIELD	2.49%	2.51%	2.74%
S&P 500 PRICE/EARNINGS RATIO	16.5	16.4	20.4

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	482.6	481.0	Positive
Stocks above 200-day moving average	73.0%	73.0%	Negative
Speculative sentiment: Put/call ratio	0.65	0.61	Neutral
Insider sentiment: Vickers sell/buy ratio	1.18	1.17	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

ONTH LEADERS	% change 1-month	12-month	Strongest stock in group	% change 1-month	12-month	Price
S	12.3	-16.0	U.S. HEALTHCARE	14.2	-18.0	34⅛
D MINING	11.4	4.9	PLACER DOME	15.7	19.8	25¾
INES	11.2	23.0	USAIR GROUP	37.1	60.4	10⅝
GS	10.7	41.6	MERCK	14.2	54.8	48⅜
ADCASTING	8.9	16.4	CAPITAL CITIES/ABC	16.5	36.6	98¾

ONTH LAGGARDS	% change 1-month	12-month	Weakest stock in group	% change 1-month	12-month	Price
URE TIME	-13.5	-8.9	BRUNSWICK	-18.7	-20.9	18½
SEWARES	-7.6	8.8	RUBBERMAID	-17.3	-4.5	26⅜
ELS AND MOTELS	-4.7	25.9	PROMUS	-5.4	21.3	41⅜
CKING	-4.6	-26.2	YELLOW	-10.5	-10.2	17
AREL MANUFACTURING	-4.2	-1.1	FRUIT OF THE LOOM	-6.0	-17.1	23⅝

TUAL FUNDS

MORNINGSTAR INC

RS

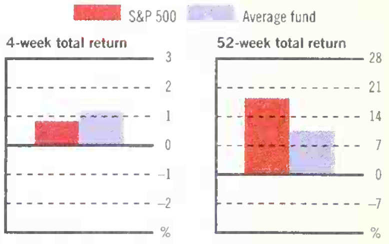
eek total return	%
EX PRECIOUS METALS	11.6
HAM GOLD EQUITIES INDEX	9.1
EL MIDAS GOLD	8.1

k total return	%
GMAN COMMUNICATIONS & INFORM. A	84.3
KINS OPPORTUNITY	66.4
ANCE TECHNOLOGY A	65.6

LAGGARDS

Four-week total return	%
AMERICAN HERITAGE	-11.3
WRIGHT EQUIFUND-MEXICO	-9.5
WARBURG PINCUS ADVISOR JAPAN OTC	-9.4

52-week total return	%
AMERICAN HERITAGE	-38.4
STEADMAN AMERICAN INDUSTRY	-33.8
FIDELITY LATIN AMERICA	-31.4



ıATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts represent the
t value of $10,000
d one year ago
ı portfolio

ıtages indicate
ıy total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$11,968	$11,555	$11,020	$10,526	$10,083
+0.09%	-2.52%	-2.49%	+0.16%	+0.73%

on this page are as of market close Wednesday, June 14, 1995, unless otherwise indicat-
stry groups include S&P 500 companies only; performance and share prices are as of mar-

ket close June 13. Mutual fund returns are as of June 9. Relative portfolios are valued as of June 13. A more detailed explanation of this page is available on request. r=revised NA=Not available

GROUPWARE REQUIRES A GROUP EFFORT

In an era of increasing specialization and complexity, groupware is becoming the essential work tool for Corporate America. At its best, Lotus Notes and other forms of groupware can encourage creative collaboration among dozens, if not thousands, of people, anywhere, anytime. But used poorly, groupware can simply become the latest indulgence in techno-narcissism—an expensive high-tech fix that doesn't deliver the real goods in the marketplace.

It all depends on implementation (page 92). IBM just paid $3.5 billion for Lotus Development Corp. because it believes that the Notes software is the strategic building block of the computer industry's next leap forward—into networking information systems. It is the perfect software for the global era. By allowing companies' workforces in the U.S., Asia, and Europe to work together in real time, groupware could revolutionize management. In a global economy, groupware eliminates the physical constraints of time, distance, and space.

Technology, however, is simply a tool. Groupware is one of the most powerful collaborative technologies ever developed. But its potential is unleashed only if an organization is structured to take advantage of group work. Drop Notes into a company with a culture of individual competition and it's a waste of time and money. "Me-now" hotshots and "take charge" bosses are anathema to its success. If groupware is inserted into a flat, horizontal organization, it can boost productivity sharply. To make this new technology work, organization and culture are as important as PCs and software.

Take incentives. Preaching collaboration is not enough. It as important for companies to create incentives for people share as it is for them to buy the latest groupware. Buildi cross-functional teams can work wonders in developing n products, but only if people are rewarded as members the team. Right now, most individuals are still evaluated their functional manager. That's one major reason why m teams fail to produce.

In the end, groupware is a technology for managing re tionships, not just information. In the book *No M Teams!—Mastering the Dynamics of Creative Collaborati* Michael Schrage suggests that successful collaborations the past, among such people as James D. Watson and Fran H. Crick, involved at least five components: equal com tence among members; shared goals; mutual respect; shar space (blackboard, piano keyboard, or, now, groupware); a continual, not continuous, communication.

Companies must design collaborative organizations for t tools of collaboration. Once they do, the power of groupw manifests itself. If Dorothy Leonard-Barton, of the Harv business school, is right in saying that innovation comes at joining of two planes of thought, then groupware is poised generate the greatest burst of productivity in modern his ry. In fact, U.S. productivity growth for the first quarter just revised up to 2.7% from 0.7%. Manufacturing product ity is now higher in the U.S. than in Japan or Germa Groupware may already be working.

JAPAN NEEDS MORE THAN A BAILOUT

Japan's financial sector is a basket case. The Nikkei has plummeted 62% from its airy 1989 high, while prices of commercial property have tumbled more than 50%. There have been runs on credit co-ops, and housing loan corporations are virtually insolvent. The upshot: Japan's financial lenders, from commercial banks to agricultural banks, have nearly $1 trillion in bad loans on their books—about 20% of the country's annual economic output. Even at the height of the savings and loan crisis in the U.S., sour loans never amounted to more than 9% of America's gross national product. The Japanese economy, and with it the global trading system, is skating on very thin financial ice.

Wrongheaded bureaucrats, shortsighted central bankers, and weak politicians are to blame. For nearly five years, the mandarins at Japan's Ministry of Finance actively collaborated with the banks in cloaking the magnitude of the crisis. MOF bureaucrats allowed banks to hide their tattered balance sheets and juiced up the stock market with public money to give banks time to clean up their act. It didn't work. Markets never got a chance to clear at lower prices, and government manipulation prolonged the financial and economic pain.

Japanese politicians are no better. A divided conservati socialist government is unable to lead. Worse, politicians of parties have received huge campaign contributions from the nancial sector. The only time the politicians and MOF tried organize a bailout, it was to help two corrupt Tokyo cre cooperatives with political ties. The ensuing scandal ero public support for bailing out the banks.

But that is precisely what must be done. An expensive massive makeover of the banking system is inevitable. The cent emergency bailout plan is timid fare. What's nee next is an honest accounting of how bad the banking cr truly is, a mark-to-market of bad loans, and a hard-nosed sessment of how much the public will have to shell out clean up the mess. Lower interest rates will be needed t nance the restructuring of the banking system.

Time is running out. Deflation is killing off growth and in Japan. Gold prices in yen are falling, real interest rates rising, and the yen is grossly overvalued. MOF bureaucrats on a financial suicide run, battling inflationary demons tha not exist while hiding banking problems that really do. Thi a scenario that has disaster written all over it.

How Frito-Lay Handles the Decision Making CRUNCH

With Its Zone Workbench System Created With SAS Institute Software

Doritos® and Tostitos brand Tortilla Chips, Lay's® and Ruffles® brand Potato Chips, and Rold Gold brand Pretzels

t's hard to imagine any company that understands consumer tastes etter than Frito-Lay, a leader in the U.S. salty snack category with nnual revenues of more than $5 billion. Yet Frito-Lay is determined o get even closer to its 400,000 retail customers.

In fact, a decentralization effort begun in 1990 has, in the last five ears, brought a renewed sense of ownership and empowerment to the 0,000 Frito-Lay employees. As part of this ownership, Frito-Lay's nformation/Technology Systems department (I/TS) has created a tactical, market-driven decision support system—the Zone Workbench System—designed to get timely information in the hands of front-line managers.

It's an application built from the customer up, and the SAS® System of software has been there every step of the way.

"The Zone Manager is the first line of communication with our Route Sales force," says Tom Nealon, Director of I/TS for Frito-Lay, whose department spearheaded development of the decision support system. "We knew from the start that the Zone Workbench had to provide information that was 'actionable'. It also had to be portable across client/server, workstation, or laptop environments. Equally important was the ability to integrate multiple data sources."

Delivering More than Software Alone

"Given the tight schedule, the software company we chose had to provide superior applications development tools—as well as comprehensive training, consulting services, and documentation," adds Nealon. "SAS Institute came through on every count, proving time and again the value of having a software vendor that's as interested as we are in completing projects on time and on target."

Nealon calls the Zone Workbench "a tremendously versatile business tool proving user-friendliness, power, and portability between platforms can all operate in one package. The old-style EIS systems are antiques. The game today is to provide information that can impact the marketplace each day, for each of our customers. For Frito-Lay, SAS Institute is making sure we have the tools to make an impact."

To receive a SAS System Executive Summary, give us a call or send us e-mail at bw@sas.sas.com

The SAS® System
Executive Summary

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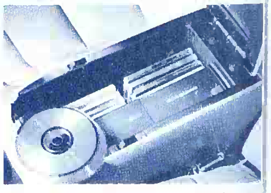
New standard 4-wheel anti-lock disc brakes for surer, safer stops.

New Automatic Ride Control constantly adjusts the suspension to your load for optimum ride and handling.



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